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FINANCIAL TIMES

General Motors
A mission to refocus
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Stock exchange in search of a role
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Marketing
ICI joins the branding club
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Today's surveys
Credit management & World motor industry
Separate sections

World Business Newspaper

TUESDAY MARCH 5 1996

Hewlett-Packard fuels computer war by cutting prices

Hewlett-Packard signalled a deepening business computer price war when it cut prices of its personal computer servers by up to 21 per cent. The cuts follow Compaq Computer's announcement last week that it would reduce prices on its commercial desktop PCs and PC servers. International Business Machines is expected to announce further reductions in the US this week. Page 16; IBM swoops on Data Sciences, Page 22

Left unites in Russia: Russia's leftwing factions united to challenge Boris Yeltsin and reformers in the June presidential election when endorsements for Communist party leader Gennady Zyuganov came from several powerful party leaders. Page 4

Citibank goes to Brussels on post dispute: Tensions caused by the growth of mailing from low-cost countries were highlighted when Citibank appealed to the European Commission to prevent the German post office from imposing an extra charge for mail sent from the Netherlands. Page 16

German energy monopolies threatened: Germany's cartel office ruled against a contract giving electricity company RWE exclusive rights to supply energy to a town, in a decision that threatens local energy monopolies. Page 4

Shake-up at Alitalia: Domenico Cempella's first day as chief executive of Alitalia was marked by sweeping management changes at Italy's troubled national airline. Page 3

Indosuez, the banking arm of Suez, the French financial and industrial holding company, reported a return to profitability in 1995. But the figures concealed a sharp fall in operating profits. Page 19

Uefa gives in on transfer fees: Uefa, the European football association, ended its defence of the fee system for cross-border transfers of out-of-contract players. Page 4; TV sports, Page 10

UK to harden EU stance: The UK government is to strengthen its sceptical approach to European Union policy with a pledge to oppose increases in the European parliament's powers. Page 11

China to endorse economic plan: 3,000 deputies at China's annual parliamentary session will be asked to approve continued economic plans to bring inflation below 10 per cent and maintain growth at about 8 per cent to 9 per cent. Page 16

Pharmacia & Upjohn, the pharmaceuticals company, is to shut 40 per cent of its manufacturing sites to make annual savings of $400m. The company, formed last November by the merger of Sweden's Pharmacia and Upjohn of the US, is also cutting 20 per cent of its research projects. Page 17

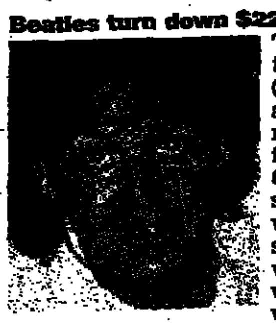
Far East shipping routes planned: Four container shipping lines, in a consortium known as the Grand Alliance, plan a Europe-Far East service involving 34 ships. Page 5; Lex, Page 16

Capital markets activity at record: The OECD said borrowing on the international capital markets set a record last year with overall financing activity up 30 per cent to $1,258bn. Page 7

Major warns Beijing on HK: UK prime minister John Major made a tough speech warning against Chinese breaches of the Sino-British pact on Hong Kong. Page 5; Tough talk, Page 11; Editorial Comment, Page 15

ICI buys paint company: Imperial Chemical Industries, the UK-based chemicals company, made its first big move into Latin America with the $380m purchase of Brazil-based paint company Bunge. Page 17; A successful ingredient, Page 14

Bids for Czech phones made: Consortia involving France Télécom and TeleDanmark have each made the highest bids for a stake in a mobile telephone licence in the Czech Republic. Page 17



Beatles turn down $225m comeback offer
The three remaining Beatles – Paul McCartney (left), George Harrison and Ringo Starr – have rejected a $225m offer from a group of US and German entrepreneurs to stage a "comeback" world tour. McCartney said the three did not want to reform the band without John Lennon, who was shot dead in 1980, adding that the value of the proposed deal was "ridiculous". Page 10

Cricket World Cup: The West Indies recovered from their surprise defeat by Kenya by overhauling Australia's 229-6 with four wickets left in Jaipur.

STOCK MARKET INDICES

New York: lunchtime		
Dow Jones Ind Av	5,581.72	(+45.18)
NASDAQ Composite	1,089.13	(+0.05)
Europe and Far East		
CAC40	2,015.31	(-1.88)
DAX	2,487.99	(-13.23)
FT-SE 100	3,768.5	(+15.9)
Nikkei	20,863.88	(-104.75)

US LUNCHTIME RATES

Federal Funds	$5\frac{3}{8}$%
3-mth Treas Bills: Yld	5.021%
Long Bond	$95\frac{1}{2}$
Yield	6.359%

OTHER RATES

UK: 3-mo Interbank	$6\frac{1}{8}$%	(Same)
UK: 10 yr Gilt	$98\frac{1}{16}$	($97\frac{13}{16}$)
France: 10 yr OAT	105.06	(104.92)
Germany: 10 yr Bund	97.95	(97.86)
Japan: 10 yr JGB	98.396	(98.076)

NORTH SEA OIL (Argus)

Brent 15-day (Apr)	$17.44	(17.61)

GOLD

New York: Comex (Apr)	$392.2	(400.2)
London: close	$393.8	(398.3)

DOLLAR

New York: lunchtime		
£	1.53	
DM	1.47575	
FFr	5.05775	
SFr	1.2007	
Y	105.0	
London:		
£	1.5282	(1.5284)
DM	1.4758	(1.4759)
FFr	5.0587	(5.0574)
SFr	1.2015	(1.2034)
Y	105.14	(105.455)

STERLING

DM	2.2553	(2.2558)

Tokyo $ close: Y 105.275

Albania	LEK 220	Germany	DM4.00	Lithuania	Lis 15.00	Qatar	QR13.00		
Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR12		
Bahrain	Din1.250	Hong Kong	HK$20	Malta	Lm0.65	Singapore	S$4.30		
Belgium	BFr75	Hungary	Ft230	Morocco	MDh18	Slovak Rp	Sk65		
Bulgaria	Lw130.00	Iceland	IKr230	Neth	Fl 4.75	S. Africa	R12.00		
Cyprus	C£1.20	India	Rs75	Nigeria	Naira90	Spain	Pta250		
Czech Rp	Kc60	Israel	Shk7.90	Norway	NKr20.00	Sweden	SKr20		
Denmark	DKr18	Italy	L3200	Oman	OR1.50	Switz	SFr3.70		
Egypt	E£5.00	Japan	Y500	Pakistan	Rs40	Syria	S£85.00		
Estonia	EKr 22	Jordan	JD1.50	Poland	Zl5.50	Tunisia	Din1.750		
Finland	FM15.50	Kuwait	Fils.650	Portugal (m'land)	Es240	Turkey	L70,000		
France	FFr11.50	Lebanon	LL3,000			UAE	Dh12.00		

Israel in tough response to blast

Cabinet acts against Hamas as 12 die in Tel Aviv bomb attack

By Julian Ozanne in Jerusalem

The Israeli cabinet last night claimed the right for its troops to enter Palestinian self-rule areas in its fight against Islamic terrorists after a fifth bombing attack in nine days.

The suicide attack, which left at least 12 people dead, plunged the Middle East peace process deeper into crisis. The attack, outside a crowded shopping mall in the commercial heart of Tel Aviv, marked the most intense and bloody period of terrorism the Jewish state has suffered.

Israel recalled a delegation sent to the US for peace talks with Syrian officials. Meanwhile, US president Bill Clinton condemned the "hysterical, determined, fanatic" forces behind the bombings and said they must not be allowed to undermine a "lasting peace" in the Middle East.

Yesterday's attack, a day after a devastating bus bombing in Jerusalem killed 19, underlined the Israeli government's inability to stop the carnage on the country's streets and dealt a potentially fatal blow to the chances of the Labour-led coalition in an election called for late May.

The bombing came despite a series of measures announced on Sunday by Mr Shimon Peres, the Israeli prime minister, which he described as "an all-out war" against Islamist terrorism.

Mr Peres, who was jeered at the Tel Aviv bomb site yesterday by angry youths chanting "Peres, you're next", held an emergency cabinet meeting after the attack and was expected to announce sterner measures including the deportation of Moslem activists and the limited re-entry of Israeli troops into Palestinian-controlled territory. The latter move would be a breach of the Israeli-Palestinian peace accords.

Mr Peres appealed to Israelis "do not lose faith", but pollsters predicted a backlash against the government, piling pressure on Mr Peres to take perilous steps which could undermine the fragile peace process.

Officials said the government was in the extremely difficult position of being forced to take steps to calm an outraged public without any guarantee the measures would end the attacks. The measures already taken include a closure of Israel's borders with Palestinian territories, demolition of homes of confirmed Islamic guerrillas and the resurrection of a plan to separate Arab and Jew by security fences.

Part of the damage caused by the latest suicide bombing in Israel which killed at least 12 people in Tel Aviv and wounded many more Picture: AP

Deployment of Israeli police and troops in battle gear on the tense streets of Jerusalem has already made Israel seem like a country preparing for war.

An unidentified caller claiming to speak for the Hamas Islamist movement told a radio station yesterday that the Tel Aviv attack was carried out by an activist from Palestinian-controlled Ramallah in the West Bank as a response to Mr Peres's declaration of war on Hamas.

He warned that if Israel took further measures, Hamas would strike again. A senior Israeli security official said Hamas had hundreds of extremists waiting to carry out suicide attacks.

The terror campaign has also increased pressure on Palestinian president Mr Yassir Arafat who knows his political future and dreams of a Palestinian state rest on a Labour victory in May. Advisers said he was nervous that further confrontation with Hamas could ignite civil war.

Terror kills Peres's hopes, Page 7
Editorial Comment, Page 15

Japanese opposition blocks $6bn bailout package

By Gerard Baker in Tokyo

The Japanese government's attempt to secure parliamentary approval for a scheme to spend Y685bn ($6.46bn) of public money on a bailout of the country's bankrupt housing loan companies descended into angry farce yesterday.

As the plan entered its final phase, members of the opposition New Frontier party barred government officials entry to the committee room in which the crucial vote was to be held.

Their action prevented any consideration of the government's 1996 budget, which includes spending on the controversial bailout plan.

The budget committee had been due to come to a decision on the scheme yesterday. But government officials, clearly shaken by the protest, indicated they would delay efforts to pass the budget until today.

Last night there were signs that the display of defiance might have forced the ruling coalition to consider last-minute changes, so as to make the plan more palatable to the public.

The founder banks of the bankrupt housing loan companies, or *jusen*, reportedly agreed to an additional bailout contribution of Y500bn. The banks are said to have agreed to attempt to increase their profits over the next five years by Y1,000bn through internal restructuring efforts. Half of that extra profit would then be remitted to the government through tax levies.

However, the scheme is unlikely to impress the opposition or the public because it represents little more than unenforceable pledges by banks to improve their own performance.

Earlier, cabinet members had met leaders of the Keidanren, the country's leading business federation, in an effort to increase the share of the costs taken by the banks.

All day, groups of NFP members worked shifts to block

Continued on Page 16

Spanish market falls steeply after election

Disappointment over Aznar's narrow victory hits trading

By Tom Burns in Madrid

The unexpectedly narrow electoral victory by Mr José Maria Aznar's centre-right Popular party (PP) in Sunday's general elections prompted the biggest fall on Madrid's stock exchange since the August 1991 coup attempt in Russia. It also jolted Spain's bond and currency markets.

"This electoral result was worse than the worst pessimist had foreseen," said the chief executive of a Madrid securities house. "The markets were betting on voters putting in a strong government and they've now got one that is weaker than the one before."

The PP won 156 seats, 20 short of an absolute majority and three fewer than the number held by Mr Felipe González's outgoing Socialist government.

Mr Aznar will now be forced to seek an alliance with Catalonia's Convergència i Unió. The CiU is the nationalist party which had formerly backed Mr González, but which withdrew its support, blocked the 1996 draft budget and forced Sunday's poll.

Mr Aznar said he was already in contact with the Catalan party and with other minority nationalist groups represented in the new parliament in order to build a governing majority. "The [market] developments indicate the very clear necessity of having as stable a government as possible," the PP leader said.

Madrid's Bolsa, however, tumbled in heavy trading, losing more than 5.5 per cent of its value at mid-morning and wiping out gains made last month in expectation of what a succession of opinion polls predicted would be a clear PP win. The general index closed at 329.03 against Friday's 345.87, which had been a two-year high.

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World stocks	Page 36

Initial disappointment over the electoral result was less pronounced on Spain's bond market where the 10-year yield differential over the German bund widened to 363 basis points from 331 at the close on Friday. On the currency markets, the peseta weakened to Pta85.20 to the D-Mark in Asia, a full peseta more than on Friday's trading, before steadying to Pta84.90.

The main concern among analysts is that Mr Aznar is now in no position to announce immediate fiscal austerity measures to impress the markets, and that radical reforms of the domestic economy may be indefinitely postponed.

The policy programme of an Aznar government will have to await negotiations with its possible allies over the coming weeks. "The PP is going to have its work cut out getting a deal from the Catalans," said a London-based fund manager. "The outcome is likely to be a softer programme than the one Aznar intended and than Spain requires."

Trafalgar House agrees to £904m bid from Kvaerner

By Andrew Taylor and Tim Burt

Trafalgar House, the struggling UK construction, engineering and shipbuilding conglomerate, agreed yesterday to a £904m ($1.4bn) takeover offer from Kvaerner, the Norwegian engineering and shipbuilding group.

The recommended deal will trigger fresh disposals of about £750m of Trafalgar and Kvaerner businesses, likely to include the sale of Cunard, the UK group's luxury cruise line which owns the QE2.

Although Kvaerner hinted that it could integrate Cunard into its existing shipping activities, most industry analysts named the subsidiary as the part most likely for disposal. The attraction of Trafalgar to Kvaerner is its international construction and specialist engineering businesses and its offshore oil and gas fabrication interests based mainly in the UK sector of the North Sea.

Mr Erik Tonseth, Kvaerner chief executive, said: "We feel comfortable with the cruise industry but Cunard falls outside our core businesses."

If it is sold, proceeds from the Cunard disposal would help offset £750m borrowings being raised by Kvaerner to acquire Trafalgar.

News of the cash bid followed more than six weeks of talks between the two sides, which intensified last week after the Norwegian group said it was seeking an agreed takeover.

Kvaerner, which first approached Trafalgar last summer, said the sale of non-core assets would ease the pressure on the enlarged group's balance sheet – likely to include £1.4bn of net debt and £1.6bn of assets.

In addition to Cunard, other disposals could include Kvaerner's own shipping interests, valued at more than £200m; its 18 per cent stake in Bergesen shipping line, with a current market value of about £170m; and its 26 per cent stake, worth about £50m, in Amec, the UK construction and engineering group.

Mr Tonseth said the enlarged group would also benefit from the £250m cash raised from the previously announced sales by Trafalgar of Ideal Homes, its UK housing division, and the Ritz Hotel in London. This would bring the total amount raised from disposals to about £1bn.

Trafalgar House shares rose 3½p to 48¾p. Kvaerner B shares rose NKr4½ to NKr198.

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FT Reporters look at the aftermath of Sunday's inconclusive elections

Spain faces period of deal-making

By David White in Madrid

Spain has entered a new era after Sunday's general election, but not the kind that opinion polls were predicting.

The centre-right Popular party's victory celebrations ended with a hollow ring. The party had won, for the first time since it was founded in the early post-Franco years, but was left 20 seats short of a parliamentary majority. Spain now faces a period of deal-making and potential instability.

The PP was aiming to re-create a political balance like the one obtained in the late 1970s by the now-defunct Democratic Centre Union (UCD). The UCD never won an outright majority but had 47-48 seats more than the next biggest party, the Socialists, and could govern on its own.

Instead, the election has re-created the situation of the last parliament, except that the positions of the main parties are reversed and the distance between them – now just 15 seats – is even narrower.

Thus, Mr Jordi Pujol, 65-year-old president of the Catalan regional government and leader of Convergència i Unió (CiU), a party which does not stand for election anywhere except in Catalonia, once more becomes Spain's power-broker.

His party's backing was just enough to give the Socialists a working majority after the last elections in 1993, and its withdrawal precipitated Sunday's election. Now the support of CiU's 16 deputies in the new congress is indispensable for Mr José María Aznar, the PP leader, to form a stable government or even pass an investiture vote.

Mr Aznar can look for allies among other regional parties – a Canary Islands group with four seats, a conservative Valencia party with one. But these would not be enough to save him from defeat if both the Socialists and the Communist-led United Left voted against a PP government. Between them, Socialists and United Left will have 162 seats, six more than the PP. To be safe, the PP needs support from about 20 deputies in addition to its own.

An alliance with the Communists is out of the question. The PP therefore has no choice but to do what the Socialists did three years ago and turn to CiU and the Basque Nationalist Party (PNV), which has five seats. Like the Catalan party, the PNV initially supported the Socialists in the last legislature but was unwilling to go into a formal coalition. Both parties are reluctant to go into a coalition now with the PP, which has fought tooth and nail to try to win away their moderate middle-class power base.

Mr Aznar said yesterday that contacts with both parties had already begun, but he has a lot of fence-mending to do. Mr Pujol is likely to put forward a tough set of demands. Both the Catalan and Basque parties are deeply suspicious of the PP and the centralist traditions of the Spanish right. They do not want their regions to be considered just like any other region, such as Madrid or Murcia. Mr Pujol will negotiate hard on arrangements for financing regional governments.

As a business-oriented party, CiU has common ground with the PP in its economic outlook, but can be expected to press the demands of small and medium-sized companies, such as lower social security costs and making it easier to sack staff – proposals that do not feature in the PP's electoral programme.

> The positions of the main parties are reversed, and the Catalan chief again becomes a power-broker

Revellers outside PP headquarters on Sunday night chanted a favourite anti-Pujol refrain, attacking measures for promoting the Catalan language: "Pujol, enano, habla castellano" ("Pujol, little man, speak Spanish if you can").

But Mr Pujol will be feeling strong after the election. His party lost one of its seats but suffered less damage than expected, while the PP failed dismally in its attempt to conquer new ground in Catalonia.

The PP had expected to win at the very least three extra seats in the region, and to take second place in Socialist-controlled Barcelona, ousting Mr Pujol's party. It did neither. Although the PP tried to adopt a more Catalan-friendly image, Catalan voters preferred to stick with the parties they have always supported. The Socialists strengthened their previous lead in the region, gaining a seat. With CiU they continue to share dominance of Catalan politics.

The effect of this is to guarantee Catalonia a big role in national politics – both through Mr Pujol and through the Catalan branch of the Socialist party, which will see its influence strengthened as a result of its recent success.

Nationwide, the Socialists and the PP took 76 per cent of the vote between them, the highest proportion to date. The United Left, although it increased its seats from 18 to 21, performed disappointingly, failing to reach the Communist party's previous record.

In Madrid the PP reinforced its position ahead of the Socialists, but by less than expected. It also fell short of expectations in Andalucia. The Socialists, although losing seats to the PP, held on as the main party in both Andalucia and Extremadura. In the predominantly conservative Valencia region, the PP's advance was halted.

In its strongholds, the PP extended its lead in the north-central Castilla-León region but elsewhere appeared to have reached its ceiling. In strongly conservative Galicia in the northwest, it lost one of its seats, while a leftwing regionalist party, the Galician Nationalist Bloc, is making its first appearance in parliament with two deputies.

The Basque region produced a draw between the PNV, the Socialists and the PP, with five seats each. The radical Herri Batasuna party, which supports the Eta separatist organisation, won 180,000 votes, enough to keep its right to two seats.

The day's biggest losers were the opinion polls, on which the media and parties spent about Pta600m ($5m). They had indicated a 6-11 percentage point lead for the PP. Even the exit polls gave a PP win of 5-6 points, when the actual gap was less than 1.5 points. Apparently, Socialist voters are more sheepish about admitting their intentions than conservative or Communist voters. But how the polls missed the mark so widely (three years ago, two exit polls got the winner wrong) is a mystery.

The PP did score strongly, however, in voting for the senate, where it won 111 of the 208 seats up for election, against 81 for the Socialists. This leaves it with an absolute majority of 132 out of 256 seats.

But what counts is the congress. There, the result has never been so close.

● A policeman was killed by a car bomb yesterday morning in Irun near the French border, stirring renewed fears of an escalation in Basque extremist violence during the political uncertainty created by Sunday's general election.

The PP and Catalans: a shotgun marriage?

"We are prepared to govern. We will talk with everyone; that has already begun."

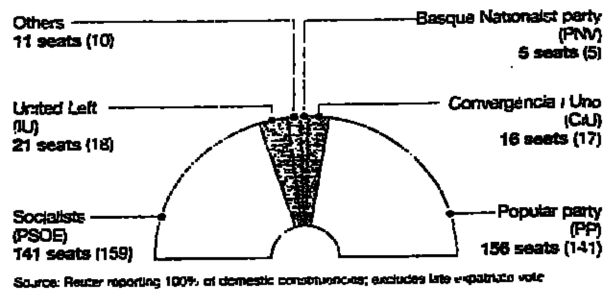
José María Aznar
Popular party (PP) leader
Photo: Reuter

"It's up to (Aznar) to explain first what his plans are, and we'll be waiting."

Jordi Pujol
Catalan coalition (CiU) leader
Photo: Expansion

Parliament: post-election balance of power

Congress of Deputies: 350 seats (1993 results in brackets)



Source: Reuter reporting 100% of domestic constituencies; excludes late expatriate vote

Forming a government: the constitutional process

- March 27 New parliament meets to elect speaker.
- March 28 Once speaker is elected, the king consults leaders of all parties and proposes to speaker a candidate to head new government. In the past, the candidate has been leader of party with most parliamentary seats, although constitution allows the king to propose anyone he chooses.
- Week of April 8 Candidate must gain outright majority of 176 in the 350-seat Congress of Deputies in a two-day investiture debate. Should he fail, he can take office with a relative majority in a second vote to be held within 48 hours.
- If the candidate fails to win second debate, the king holds new round of consultation to propose another candidate, a development which has yet to occur.
- Should no candidate obtain the confidence of the house within two months of the first vote, parliament is automatically dissolved and new elections held.

Andalucia local vote bucks the national trend

By Tom Burns

Local elections in Andalucia on Sunday underlined that the backward south of the country is forever Socialist. The polls in Spain's most populous region, which were held simultaneously with the general election, re-elected premier Mr Manuel Chaves with an improved, near-outright majority.

Mr Chaves – a long-standing close associate of the outgoing prime minister, Mr Felipe González, who himself was born in the regional capital Seville – had been forced, like Mr González, to call the regional poll because his minority government had failed to pass its 1996 draft budget.

The Socialist share of Andalucia's regional vote increased from the 38.1 per cent it won in the 1994 poll to 44.6 per cent, and Mr Chaves won 52 seats in the 109-member parliament, up from 45 two years ago.

The Popular party (PP) won 40 seats, one less than it had in 1994; the communist-led United Left (IU) had its 20 seats reduced to 13; and a minority regionalist party won four seats.

The Andalucia elections confounded the opinion polls, which had indicated a PP victory in the local vote, even more than the results of the national elections. The PP vote was largely confined to the bigger towns and support for IU crumbled as the leftwing vote rallied to the Socialist party.

In the general elections in the region, by contrast, the PP gained four seats for a total of 24, while the Socialists lost five to 32.

Andalucia, which has been run by the Socialists since the local parliament was first elected in 1982, has a per capita gross domestic product that is only 69 per cent of the national average and an unemployment level that stands at 30 per cent, 10 points above the national average.

A triumph for the loser, complications for the winner

By David White

A "calm, normal man" was how Mr José María Aznar, seated in a large leather armchair, described himself in his last party political broadcast at the close of the election campaign.

But the same PP leader who faced an interview with Spanish state television the day before was anything but calm. He would not go to the studio, where Mr Felipe González, the prime minister, was due to be interviewed immediately afterwards. Instead, the studio had to be moved to him, by truck.

Thus it was that the two men who dominated the Spanish election battle – more like a presidential contest – never crossed each other's path during the campaign.

Three years before, after a debate with Mr González, Mr Aznar lost, unexpectedly and by a margin of 950,000 votes. This time he would not go into a debate unless the Communist leader, Mr Julio Anguita, was there to harry Mr González, too.

Mr Aznar was setting his target high – going not only for a win but a big enough win to avoid having to make pacts with other parties. Now the man set to be Spain's fourth elected prime minister since democracy was restored 20 years ago has had to change his tune.

"The greater the consensus, the better it will be for the stability of Spain and for achieving economic targets," he said, referring to the hard task of bringing Spain into line with the conditions set for joining the European single currency.

He has promised that, unlike Mr González, he would quit after two four-year terms. Yesterday he was anxious to convince Spaniards he could last through four years without being forced to call another election.

The final party political broadcast was an effort to build his image as a credible prime minister, conversing in a fireside-chat manner about himself, his hobbies, his family and his ambitions for Spain.

Mr González's questioning of his suitability is something that has obviously cut Mr Aznar to the quick. Never, says Mr Aznar, has a politician had to receive as many insults as he has. This is a claim the Socialists would contest, after all the attacks against Mr González in the last two years over corruption cases, "dirty war" crimes and alleged abuses of power.

For Mr González Sunday's result was a personal triumph. From his beaming reaction it seemed as if the Socialists had won, although they had lost 18 seats and their position as leading party, held since their first victory more than 13 years ago.

Returning to the campaign trail in a way he had not done for years, Mr González picked the Socialists up from the 31 per cent of the vote they scored in local elections last year to over 37 per cent. Evidently, the González magic, and his easy way of engaging his listeners, still work. So does the lingering spectre of Francoism, in contrast to which Mr González presented the Socialists as the representatives of "tolerance" and "modernity".

The Socialist campaign, at first vitriolic in its depiction of the Spanish right, improved in the later stages. Mr González's closing broadcast, a stark contrast to Mr Aznar's, was an urgent appeal aimed at bringing out diffident voters and dissuading them from defecting to Mr Anguita. He succeeded in both.

EUROPEAN NEWS DIGEST

Reform at top of Alitalia

Sweeping management changes were introduced yesterday at Alitalia, Italy's troubled national airline, on Mr Domenico Cempella's first day as chief executive. Mr Cempella set up a five-person executive to replace the previous structure of 14 directors. Mr Cempella was appointed last month with a brief to rationalise the state-controlled airline's operations, and end a confrontation with the unions, allowing an L1,500bn ($955m) capital injection acceptable to the European Union. He has worked in Alitalia and other state-controlled groups, most recently running the Rome Airports.

The shake-up makes the position of Mr Renato Riverso as chairman increasingly irrelevant. He has been under strong pressure to step down since last Friday's decision by Iri, the state holding company owning 90 per cent of Alitalia, to end its battle with Mr Roberto Schisano, the chief executive fired last year. Mr Riverso was reported to have favoured legal proceedings against Mr Schisano, which were dropped last week. *Robert Graham, Rome*

Italy TV football protests grow

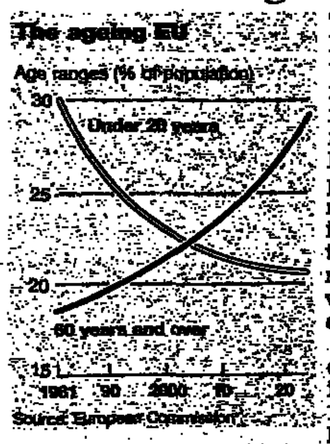
Protests continued yesterday against the award of a L640bn ($407m), three-year contract for television coverage of Italian League football to two small channels owned by Mr Vittorio Cecchi Gori. A viewers' association, Adiusbef, said it had petitioned magistrates to investigate last week's award of the contract on the grounds Mr Cecchi Gori's two channels – Telemontecarlo and Videomusic – did not cover all of Italy. Adiusbef also claimed a conflict of interest between Mr Cecchi Gori's position as a television owner and proprietor of Fiorentina, one of the football clubs involved in awarding the contract.

Rai, the state broadcasting organisation, has already protested at losing the contract, and yesterday journalists and other employees at Rai went on strike over it. Mr Cecchi Gori is willing to discuss selling off some of his rights, but Rai has said it will not negotiate. *Robert Graham, Rome*

Hopes for Swedish rate cut

An optimistic prognosis for Swedish inflation issued yesterday by the central bank prompted widespread expectations that the Riksbank would soon cut interest rates for the fifth time this year. The key repurchase rate has already been lowered from 8.91 per cent in early January to 8.05 per cent and some market analysts believe it could eventually fall to 6.50 per cent in light of the latest inflation expectations. The Riksbank, in its most upbeat inflation forecast for many months, said annual price increases could be in line with its target of 2 per cent "in the coming years". It also said that the Swedish krona remained undervalued despite a marked strengthening in the last six months. However, the less upbeat side to the outlook was continuing weak economic growth, which has contributed to the fall in inflation and increased calls for lower interest rates. *Hugh Carnegy, Stockholm*

EU citizens ageing rapidly



The average age of the European Union's population will increase sharply over the next 30 years, with a rise of nearly 50 per cent in the number of people over 60, the European Commission predicted yesterday. In a report on demographic trends in the 15 EU member nations, the Commission said the number of citizens under 20 was likely to shrink 11 per cent over the same period.

The report predicted the over-60 population would increase from 76.3m in 1995 to 113.5m in 2025, while the total EU population will hold steady at about 375m. It also found that by 2025, the number of adults between 20 and 59 would fall by 6.4 per cent, the number of citizens over 85 would double, and the median age – the point at which half the population is older and half younger – would climb to 45 from 36. *AP, Brussels*

Albania plans stock market

Albania plans to set up a stock market within the month, trading government securities and privatisation vouchers, according to the new chief executive of the Tirana Stock Exchange, Mr Albina Karamitro. The market will be organised within the Central Bank of Albania and regulated by a securities commission appointed by President Sali Berisha.

The mass privatisation plan, combined with the country's relative macro-economic stability, and stable inflation and currency have created the right conditions for opening the market, Mr Karamitro said. Some 70 state enterprises have already been sold to voucher holders, and 20 more are being prepared for sale.

Privatisation vouchers are being traded on the street. "We need to be better organised now. We still don't have an amount large enough to have a sophisticated market, but this is just the beginning," Mr Karamitro said. Plans for the market include currency trading. *Marianne Sullivan, Tirana*

New Hungarian party planned

Mr Ivan Szabo, the former Hungarian finance minister, said yesterday he was leaving the Hungarian Democratic Forum (MDF), the conservative centre-right party which governed the country between 1990 and 1994, to set up a rival party. Mr Szabo, a moderate who may be joined at the new Hungarian Democratic People's party by a number of MDF MPs, made his announcement a day after losing the MDF leadership contest to Mr Sandor Lezsak, a nationalist.

The MDF won the country's first post-communist elections in 1990 but was reduced to just 36 MPs after a humiliating defeat by the Socialists, the former communists, in the 1994 elections. *Virginia Marsh, Budapest*

EU to extend curbs on diesel emissions

By Caroline Southey in Brussels

European Union environment ministers yesterday backed plans for EU-wide curbs on exhaust emissions from bulldozers, harvesters and dumper trucks.

The proposals target larger diesel-powered "non-road mobile machinery" which contribute to high levels of air pollution through emissions such as nitrogen oxide, one of the main contributors to acid rain, and diesel particles, many of which are carcinogenic. The aim would be substantially to reduce emissions of four main motor exhaust pollutants by the year 2003.

The curbs would bring the EU broadly into line with US rules published last year, although a proposed second phase of cuts would introduce stricter standards than envisaged by the US. The EU's programme would reduce nitrogen oxide emissions by 42 per cent, hydrocarbon by 29 per cent and diesel particles by 67 per cent by 2003.

The European Commission has calculated that machinery covered by the proposal accounts for nearly 30 per cent of total nitrogen oxide emissions from diesel vehicles.

Moves to extend emission curbs to the sector have been backed by EU industry and member states such as Germany and the UK, fearful that EU industry could suffer because of a lack of harmonised standards within the EU and between the Union and its main trading partners.

EU sales in the sector exceeded Ecu7bn (£5.5bn) last year. European manufacturers exported more than 50 per cent of their products, mainly to South Korea, Taiwan, China, Australia, New Zealand and the US.

A UK official said Britain supported the proposal for "environmental and trade reasons" and that it was "particularly keen that common standards should be agreed with the US". Euromot, an industry association representing EU manufacturers, said the proposals were "in the interests of the industry".

"It is a worldwide industry and we want to achieve worldwide standards so that we can export without complications," said Mr Harmut Mayer, general secretary of Euromot. He said the proposals would drive up manufacturing costs slightly, notably for small engines "but given the timeframe for introducing the curbs we can live with it".

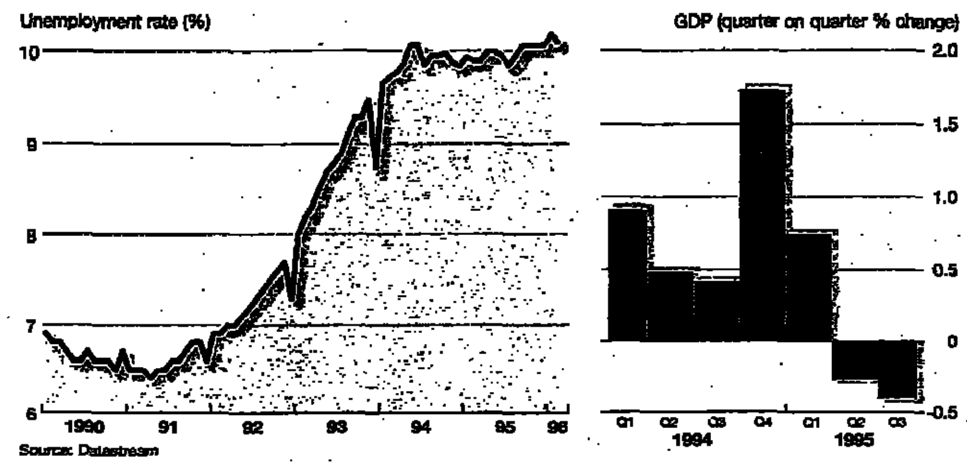
Dutch estimates put the rise in sales prices at 1-3 per cent after the first phase and 3-8 per cent after the second. Agricultural tractors as well as military vehicles are excluded. The Commission is expected to table proposals for tractors by the end of the year and is considering curbs on petrol-powered machines.

EU ministers also offered broad support for Commission proposals to reduce CO_2 emissions and improve fuel efficiency in cars. They backed plans to improve fuel efficiency in new cars to five litres per 100km for petrol engines by the year 2005, or the alternative target of achieving an average CO_2 emission of 120g per kilometre.

Although the ministers backed Commission proposals to achieve these goals through voluntary agreements with car manufacturers and a labelling system for cars to indicate their relative fuel efficiency, they remained divided on the issue of fiscal measures, such as a possible CO_2 tax.

Belgium sends distress signals

Belgium: jobs stagnate amid recession



Source: Datastream

The prospect of economic downturns in Germany or France has sent uncomfortable shivers down the spines of Europe's leading politicians, eager for a smooth transition to a single currency in 1999.

But little attention has been paid to the plight of Belgium, the small, strongly pro-European country that last year slid quietly into recession.

According to the National Bank of Belgium, the economy "has not grown at all" since the spring of last year. And news yesterday that unemployment fell in February is unlikely to lift spirits.

The Ministry of Employment reported that the number of people without a job dropped to below half a million last month. However, this still leaves the rate of unemployment – calculated according to Belgium's own measures which are different from international measures – at roughly 14.5 per cent.

The shockingly high figure reflects last year's dismal economic performance. According to estimates from the central bank, the economy shrank for two consecutive quarters, creating, by the usual economic definitions, a recession. In the second quarter, and on an annualised basis, growth fell by 1.1 per cent compared with the first. In the third quarter, the drop was 1.6 per cent.

Economists at Générale de Banque have estimated that in the fourth quarter the drop continued with a 0.4 per cent quarter on quarter fall, but that since then the economy had shown signs of stabilising.

For such a European nation – multilingual, geographically central and home to the EU's institutions – the figures highlight a sad irony: namely that the country's integrationist ambitions are taking a heavy toll on the economy.

Mr Jean-Luc Dehaene, the Christian Democrat prime minister who leads the country's centre-left coalition, has vowed that Belgium will be among the first countries to replace its national currency with the Euro.

But in order for the dream to be fulfilled the country has had to stick to a series of tough austerity measures. For example, it has frozen wages since 1993 and cut spending on health and other social services. The result – apart from recession – is that Belgium will almost certainly meet the deficit target of 3 per cent of GDP this year, unless there are any unexpected upheavals in growth or interest rates.

Less promising is the outlook on debt. In order to qualify for monetary union, a country's debt level has to be moving towards a target of 60 per cent of GDP. Belgium's debt is undoubtedly moving in that direction, but remains a long way off. Last year the debt to GDP ratio was 133.7 per cent compared with 136.1 per cent in 1994. Although Belgians are showing distinct signs of unrest, outrage has not reached the levels seen in France before Christmas, partly because in Belgium the linguistic divide between French-speakers and Flemish-speakers "weakens the front", as one political observer put it.

Nonetheless, there have been sporadic strikes since the end of last year and more recently French-speaking students caused havoc in Brussels in protests over education cuts.

Boarded-up businesses are also testimony to the rise in bankruptcies, particularly in the small and medium-sized business sector, where employers are struggling to meet some of the highest employee contributions in Europe.

Explanations as to why growth has slowed so far and so fast start with a general belief that Belgium's economy simply reflects the broader slowdown in Europe – and above all in Germany.

But more specifically, the nature of the European slowdown and Belgium's economy may have exacerbated the problem. The downturn in Europe appears to have been driven by a wave of de-stocking. A large proportion of Belgium's industry and exports are focused around raw materials and processed goods – elements that typically perform well in an economic cycle and fall off early in a slowdown.

Meanwhile, Belgium has also been hit hard by the strength of the Belgian franc. Exports, which represent about two-thirds of all production, are crucial for Belgium which competes directly with Italy in areas such as textiles, metal-working and furniture. Exports southwards have been hit particularly hard as a result of the lira's devaluation.

Worries about job cuts and welfare reductions also mean that Belgians have not been spending.

"Consumers are constantly afraid that the government will take new measures to get the deficit down," says Mr Jan Hermans, chief economist at the Federation for Belgian Enterprise.

According to economists there have been a few bright spots this year, most of them anecdotal. Mr Peter Praet of Générale de Banque points to a 44 per cent year-on-year rise in car registrations last month and a sharp year-on-year increase in mortgage loans.

However, even if the economy does grow a bit this year, it still leaves Belgium facing huge problems. Perhaps the biggest is unemployment – a "major human and social problem", according to the central bank. Economists believe that the economy needs to grow by some 2.2 per cent a year to reduce the jobless count – a rate above even the government's optimistic 1996 forecasts.

The government met yesterday at its country retreat to discuss a new initiative aimed at alleviating joblessness.

But with the government's hands tied by budget constraints, debate has shifted away from old-fashioned job creation towards a focus on incomes policies. In particular, the government wants to introduce tighter controls on wage policies, by indexing wage growth to its three neighbours – Germany, France and the Netherlands.

Belgian economists hope that this type of indexing will boost productivity. And as the Continent prepares for a single currency, they argue that this type of co-ordinated wage policy is precisely the type of initiative needed to help the convergence of Europe's economies.

But these types of measures are unlikely to provide any rapid boost to Belgium's economy – let alone convince the population of the joys of the austerity policies triggered by the preparations for Emu.

Emma Tucker, Brussels
Gillian Tett, London

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Russia's leftwing factions unite to challenge Yeltsin and the reformers in presidential poll

Communists boost Kremlin campaign

By John Thornhill in Moscow

Most of Russia's fractious leftwing parties closed ranks yesterday to support the presidential candidacy of Mr Gennady Zyuganov, boosting the Communist party leader's chances of winning the election in June.

Communist party tacticians feared a host of rival leftwing presidential candidates would split their vote, allowing President Boris Yeltsin to be returned to office.

But endorsements for Mr Zyuganov as the left's single candidate came from several powerful party leaders, including Mr Mikhail Lapshin of the Agrarian party, and Mr Nikolai Ryzhkov, the former Soviet prime minister who heads the Power to the People movement.

As many as 150 leftwing parties and associations are expected to join a coalition of "popular-patriotic forces" to support Mr Zyuganov on a platform of "spirituality, statehood and ideals of kindness and justice".

However, Mr Victor Anpilov, the firebrand communist leader of the Working Russia movement, voiced dissension, saying he would withhold his previously stated support for Mr Zyuganov until he made more explicit promises to re-create the Soviet Union. Mr Anpilov's movement did surprisingly well in December's parliamentary elections, winning 4 per cent of the votes.

Although the leftwing parties' support for Mr Zyuganov is hardly unexpected, it does confirm the impression that his well-organised campaign is gathering momentum. The Central Electoral Commission yesterday registered Mr Zyuganov as the first candidate to have collected more than 1m voters' signatures.

The relative cohesion of the left contrasts with the disunity that still dogs the centre. Russia's free-market liberals have abandoned Mr Yeltsin but have failed to coalesce around a plausible alternative candidate.

Mr Grigory Yavlinsky, leader of the liberal Yabloko grouping and presidential hopeful, has not won many endorsements from other politicians in the reformist camp and appears to be faltering in the polls.

But the breadth of political views Mr Zyuganov now represents makes it hard to fathom what policies he would implement if elected.

Mr Valentin Kuptsov, deputy chairman of the Communist party, presented the party's moderate face on a recent visit to Belgrade suggesting only corrupt businessmen need fear a Communist victory.

In the past Mr Zyuganov has employed extreme nationalist language, rejecting western interference in Russia's economy. He has also compared the International Monetary Fund with the Nazi *Gauleiters* who administered occupied areas of the Soviet Union in the second world war.

Communist leader Gennady Zyuganov discussing the leftwing pact in Moscow yesterday Reuter

Germany takes action on its energy cartels

By Judy Dempsey in Berlin

Germany's cartel office yesterday ruled against a contract giving RWE, the country's largest electricity company, exclusive rights to supply energy to a town, a decision that threatens to unravel the system of local energy monopolies existing since the end of the second world war.

The cartel office's direct challenge is seen as a test case for foreign and local companies which are anxious to break into the lucrative German energy sector but which are restricted by decades-long contracts between the utility companies and towns. Many of the contracts have expired or are due to soon. German cities earn an estimated DM6bn (£2.6bn) annually from the contracts.

The utility companies, backed by the towns and cities, remain staunchly opposed to *deregulation of the energy sector* – despite calls by the UK and other European Union countries. The companies and municipalities fear deregulation would dent the monopolies and privileges they enjoy in the distribution of energy.

The case of Nordhorn, a town in Lower Saxony on the Dutch border, and RWE encapsulates the cartel office's grievances over Germany's highly regulated energy sector.

In 1995, Nordhorn and RWE signed a new 20-year "concessions contract" giving RWE the exclusive right to supply energy to the town of 50,000 inhabitants. In return, RWE paid Nordhorn a fee. "This is one of the reasons why towns are reluctant to upset that relationship. They get handsome fees. They don't care about choice or competition or if the consumer has to pay one of the highest energy prices in *Europe," said a cartel office* spokesman.

The new contract was challenged by the state cartel authorities because it blocked competition. The state body later referred the case to the federal cartel office. At the same time, however, the federal cartel office started proceedings against Ruhrgas and Thyssengas, the gas companies which carved out among themselves a "demarcation" contract giving them the exclusive right to supply energy in a region around Nordhorn.

RWE and Nordhorn may appeal against the ruling, which may end up being referred to the European Commission.

"It is a monopoly within a monopoly," said Mr Kurt Markert, head of the federal cartel office's energy department.

Uefa abolishes fees for cross-border transfers

By Simon Kuper in London and Neil Buckley in Brussels

Uefa, the European football association, yesterday agreed to abolish fees on cross-border transfers of out-of-contract players between European Union states or Norway, Iceland and Liechtenstein. It also scrapped the limit on the number of EU players in teams in its competitions.

The move represents an end to Uefa's attempts to lobby governments and the European Commission to retain the international transfer system, worth hundreds of millions of pounds. The system was ruled illegal by a European Court of Justice judgment in December on Jean-Marc Bosman, a Belgian midfield player.

But Uefa has set up a working group comprising several national associations, leagues and players' representatives to examine alternatives to the former transfer system. Uefa *said: "The actual transfer system is illegal.* But that does not mean that no transfer system can exist."

Also, Uefa's statement left intact the far larger market in transfers between clubs within the same country. Each national football association must decide whether to abolish fees on its domestic transfers, Uefa said yesterday.

Mr Stefan Szymanski, lecturer at the Imperial College London management school, said that transfer fees for players moving between European states amounted to about £200m last year. Domestic transfers were worth far more, with transfers between English clubs alone totalling more than £100m. Several national associations have asked to meet Mr Karel Van Miert, competition commissioner, to discuss options for future domestic transfer *systems. The English Football* Association said yesterday: "We want to maintain the status quo." Other associations are still debating their plans.

Mr Nicholas Stewart QC, a British barrister, said the domestic transfer system would probably crumble under a court challenge from a player or a club. "A transfer system does exercise some restraint of trade," he said. Mr Szymanski said: "If the law applies between states, it must apply within states."

Some football agents believe players can already move without a fee in the same country, by using a foreign club as a go-between. A player wanting to move from one English club to another could be "parked" in France and then return to England without a fee being paid.

Timing of French reductions in armed forces irritates Bonn

Franco-German defence strains

By Peter Norman in Bonn

Sand is getting into the works of the Franco-German relationship, which both countries see as the "motor of European integration".

This conclusion can be drawn from Germany's cool reaction to France's recent steps to restructure its armed forces and the slow process of working out joint positions for the forthcoming intergovernmental conference on reforming the European Union that begins in Turin this month.

While the two countries' foreign ministers were singing the praises of the relationship in the southern German town of Freiburg last week, their joint guidelines on European foreign and security policy bore the hallmarks of a difficult compromise. They also admitted that their views differed on a European approach to internal security issues.

Since then, Mr Volker Rühe, the German defence minister, has disclosed his irritation at the lack of consultation from the French side over armed forces reforms which have far reaching implications for Germany's system of conscription and joint arms procurement and development programmes.

Over the weekend, Mr Rühe gave cautious vent to his feelings in an interview with the Frankfurter Allgemeine Zeitung newspaper. Because of the overriding importance attached to the Franco-German relationship by Chancellor Helmut Kohl, German cabinet ministers generally hold back from public criticism of France. Mr Rühe's remarks were far from strident, but they gave the clear impression that relations between Bonn and Paris are far less smooth with President Jacques Chirac in the Elysée palace than when Chancellor Kohl's great friend François Mitterrand was French president.

Mr Rühe made clear that he was not informed about the details of President Chirac's military plans before they were announced and was still unclear about their consequences for France-German military co-operation, particularly as regards the Franco-German Eurocorps.

Germany fears that the French shift to a smaller professional army raises questions about whether France would have sufficient resources to keep its conventional equipment up to strength and whether it would have the same interest in joint programmes for the "tiger" attack helicopter and the "NH90" light transport helicopter.

In his reaction to the French

Rühe's remarks gave the clear impression that relations are less smooth with President Chirac in the Elysée

moves, Chancellor Kohl indicated that he had been kept abreast of French thinking ahead of President Chirac's announcements on television. The reaction of Germany's defence minister *suggests,* however, that at a departmental level liaison between the two countries is far less close.

The view in Bonn is that the problem lies in Paris because the French cabinet has less insight into the thinking of the Elysée than was the case during the Mitterrand presidency.

The differences over defence, like the surprise caused last year by France's decision to resume nuclear testing, are a sign that Paris has become less calculable for Germany's bureaucrats. Although Germany's political leaders still swear by Franco-German friendship, some officials at least are beginning to wonder whether Germany should look again at its ties with the US, or even Britain, as an insurance policy against surprises in the future.

Far East shipping routes planned

By Charles Batchelor, Transport Correspondent

The four container shipping lines grouped in a worldwide consortium known as the Grand Alliance yesterday unveiled their plans for a Europe-Far East service involving 34 ships with a capacity of more than 860,000 containers a year.

The alliance of P&O Containers of the UK, Hapag-Lloyd of Germany, NYK of Japan and the Singaporean Neptune Orient Line, plans to start its complete range of sailings in June.

The Grand Alliance is the largest of the three *consortia* set up by container shipping lines during the past 18 months as *part of a regrouping of the* worldwide container sector.

As conferences – price-fixing arrangements – have come under pressure from regulatory authorities, the shipping lines have switched to looser alliances or consortium agreements.

The Grand Alliance *partners have an* arrangement for the fair sharing of costs but are free to set their own prices and do not share profits. They negotiate jointly to buy road and rail freight capacity at either end of the voyage and to gain access to container terminals.

The alliance will offer four "loops" between Europe and the Far East, two serving Japanese ports such as Nagoya and *Shimizu and two serving south* China, South Korea and Hong Kong. A final decision has yet to be taken on the south China port but Shekou, Chiwan and Yantian have been shortlisted.

The service will be one of the few to provide direct links between Jeddah in *Saudi Arabia and the Far East.* European ports served will include Hamburg, Rotterdam, Le Havre and Southampton. Feeder services, using smaller vessels serving less busy destinations, will link Mediterranean ports to the Far East sailings.

Mr Peder Braendeholm, general manager of P&O's Far East services, said the service had been designed to provide *rapid journey times but not so* tight a timetable that reliability would suffer.

P&O and NYK will each provide nine ships while Hapag-Lloyd and Neptune will supply eight each. P&O will remove six ships with an annual capacity of *100,000 containers, which it currently* operates independently on these routes, to the Pacific arm of the Grand Alliance.

A characteristic of the new alliances is that they provide global east-west links, including trans-Pacific as well as Europe-Far East services.

See Lex, Back Page

Bulk carrier losses fall to 6-year low

By Charles Batchelor

Casualties among bulk carriers, which move heavy cargoes of ore, iron and grain, fell to their lowest level in six years in 1995 although six vessels were still lost at a cost of 84 lives, said the International Association of Dry Cargo Shipowners (Intercargo).

Escalating losses of bulk carriers during the 1980s prompted considerable concern in the shipping community and led to a tightening of inspection standards.

The losses in 1995 represented a sharp decline from the previous year, when 15 vessels were written off, but brought to 118 the total number lost since 1990. Thirty four incidents involved loss of life and a total of 587 crew members were lost over the six year period.

Tighter international safety *regulations and more thorough* monitoring of the condition of vessels by classification societies, port authorities and managements led to a reduction between 1990 and 1995 in the number of vessels lost for reasons relating to poor maintenance, Intercargo said.

But there was a corresponding increase in the percentage lost due to strandings and collisions, usually the result of human error.

In 1990, 46 per cent of losses were due to "leaks" and disappearances – ships lost for no *explicable reason – but by 1995* they represented only 17 per cent of the total. In contrast strandings and collisions accounted for only 21 per cent of losses in 1990 but for 83 per cent of the smaller number of losses in 1995.

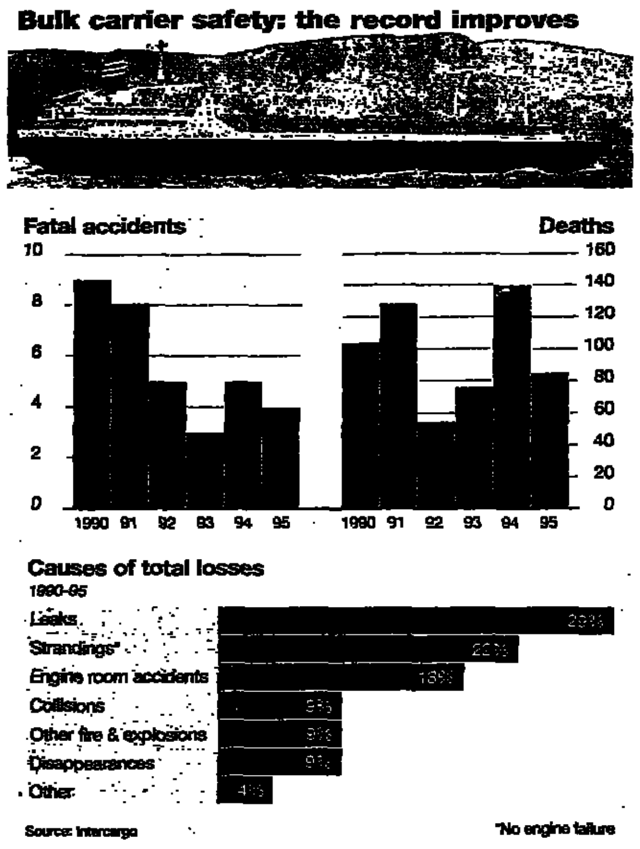
Four of the ships lost in 1995 involved strandings, one was involved in a collision while *the sixth took in water.*

Ships carrying iron ore cargoes represented the largest category of losses over the six year period. The most dangerous area for vessels was the Indian Ocean with a loss rate for iron ore cargoes almost double that of the South Atlantic or the western Pacific.

More than 5,000 dry bulk carriers are in use worldwide. Concern has arisen over their design – whether the much larger vessels now in use were capable of handling heavy cargoes – and about the rough *treatment they receive in port.*

The British government recently ordered a renewed investigation of one of the most notorious incidents involving the loss of a bulk carrier, the disappearance of the 90,000 tonne Derbyshire in a typhoon off Japan in 1980. The four year old ship sank so fast the crew were unable to *send a "mayday" message.*

Bulk carrier safety: the record improves



Source: Intercargo

*No engine failure

Fast ferry set to cut Adriatic crossing time

By Kerin Hope in Athens

Minoan Lines, Greece's largest passenger shipping operator, has placed a Dr25bn ($102m) order for a new fast ferry with Fosen MEK Verksteer, the Norwegian shipbuilders.

Minoan, based on Crete, is upgrading its fleet to meet intensifying competition on the Adriatic crossing, mainly from Attica Enterprises, another Greek company which operates two fast *ferries on the Patras-Ancona* route.

Minoan's new 31,000-ton luxury ferry will have a top speed of 27 knots, enabling it to make the Patras-Ancona crossing in 19 hours against the 20 hour crossings *for the Attica* ferries.

It is due to be delivered in spring 1998.

The new vessel, the second fast ferry in Minoan's fleet, will be able to carry 1,500 passengers and 800 cars or 150 trucks.

Attica claimed to have captured a 45 per cent share of the Patras-Ancona market, the most popular Adriatic route with both tourists and truck-drivers, last year, its first operating season.

As well as operating a daily service in each direction, Attica launched Greece's first on-line booking system for ferries.

Minoan's joint venture with Strintzis Lines, another Greek ferry operator, secured an overall market share of around 50 per cent for all routes between Greece and Italy but lost ground on the Patras-Ancona run, according to analysts.

More than 1m tourists and 100,000 trucks use the Adriatic crossing every year.

Chinese face ITC fines over magnets

By Nancy Dunne in Washington

Crucible Materials Corporation of Syracuse, New York, yesterday asked the US International Trade Commission to impose fines against three Chinese companies for violating an agreement over Crucible's patent of sophisticated rare *earth permanent magnets.*

Patent violations and the failure of Chinese companies to honour copyrights, trademarks and intellectual property has twice brought the US and China to the brink of trade war. The US trade representative is considering a response to China's failure to honour last year's intellectual property rights agreement.

Rare earth magnets are used extensively in electronics. Small magnets are used in *motors, relays, switches and* valves. They are also used to focus electron beams in radars and guidance systems. The Central Intelligence Agency believes China has sold rare earth magnets to Pakistan.

Crucible last year took its complaint to the ITC, arguing that copies of its neodymium-iron-boron (NdFeB) magnets *were being sold in the US market.* The company's sales from its earth magnet plant in Kentucky, which employs 500 workers, have fallen from $25m in 1989 to $12m last year. The company says it is being undermined by pirated versions of its product.

Before a final ITC ruling was issued, three of the seven companies targeted in the complaint last October signed an agreement in a federal consent order that the Crucible patent is valid and they would not violate it.

The four other companies named in the complaint did not sign the consent order. A ruling on their case is expected later this month. The Commission can *issue a permanent* exclusion order for all products found to infringe US company patents.

ITC patent infringement cases against Chinese companies are rare.

WORLD TRADE NEWS DIGEST

EU warns of fur trap ban

EU environment ministers yesterday warned leading fur exporters that the EU would press ahead with a ban on fur imports at the end of the year unless talks aimed at finding an alternative to leg-hold traps produce satisfactory results. The ministers urged the US, Canada and Russia to find alternatives to leg-hold traps or to use internationally humane trapping standards by the end of the year to "avoid implementation of an import ban that would otherwise be inevitable".

Last year the EU delayed a ban, due to come into effect on January 1 this year, on the import of fur from animals which had been caught in leg-hold traps. An EU ban would provoke a *trade dispute with the US, Canada and Russia which has* threatened to refer any ban to the World Trade Organisation on the grounds that it would constitute an unfair trade practice. *Caroline Southey, Brussels*

Nokia wins big US contract

Nokia, the Finnish mobile telephones group, has won its biggest contract to date to build a Personal Communications Service network in the US. The $200m deal with American Portable Telecom, the fifth largest PSC operator, is for the initial construction of base stations and switching equipment to cover nine cities in Ohio, Texas, Kansas, Minnesota, Pennsylvania and Florida. Nokia said the contract was an important step in its efforts to build up sales for mobile *infrastructure in the US where its main strength has been in* the sales of mobile handsets. Previously Nokia had won two PCS contracts for base stations. *Hugh Carnegy, Stockholm*

Airport passengers rise 4.7%

The world's airports handled 2.2bn passengers last year, an increase of 4.7 per cent over 1994, according to Airports Council International. The biggest increase was at Pacific airports, where passenger numbers rose 7.6 per cent to 358.9m. The second biggest increase was in Europe, where numbers rose 6.8 per cent to 643.9m. North American airports handled just over 1bn passengers, a rise of 2.9 per cent.

Chicago's O'Hare remained the world's busiest airport, with passengers up 1.2 per cent to 67.3m. Atlanta was in second place with 57.7m passengers, followed by London Heathrow (54.5m). *Michael Skapinker, Aerospace Correspondent*

■ Philips, the Dutch consumer electronics group, will increase its stake in the Chinese television tube producer Hua Fei Color Display Systems from 30 to 55 per cent. Partners in the Chinese joint venture will invest about Fl 600m ($363.6m) *to expand production of picture tubes. Hua Fei's current* production capacity of 1.7m colour television tubes will be increased to 4.3m tubes per year. Hua Fei will also build a new factory for the production of colour monitor tubes with a capacity of 1.4m tubes. *AP, Amsterdam*

■ ABB Asea Brown Boveri, the Zurich-based electrical engineering group, has formed a joint venture in China to manufacture pre-insulated district heating pipe systems for the Chinese market. *Frances Williams, Geneva*

Correction

Yesterday's table on world drugs sales misstated two figures. Sales of anti-infectives and respiratory drugs in France should have been $2.02bn and $1.31bn respectively, making the total for France $15.1bn.

Defence spending cuts to continue

By Patti Waldmeir

The Clinton administration yesterday unveiled a 1997 military budget of $242.6bn, 3.6 per cent smaller than the current year's budget, continuing a long-term trend of declining defence spending.

Procurement of new weapons would take the biggest cut out of the Pentagon budget. Last year, the Pentagon had said such spending would increase this year, but those increases have been delayed by a year, because of pressure to reduce the federal deficit.

The Pentagon said yesterday its spending as a share of gross domestic product would drop to 3.2 per cent in this budget, the lowest since 1938. As recently as the mid-1980s, this figure was 6 per cent.

Although procurement spending would fall in 1997 to $38.9bn from this year's $42.3bn, the decline would be only temporary. By 2001 – the year before the President and Congress have agreed to balance the federal budget – it would have jumped 40 per cent from current levels, to $60bn. Senior military officials say such spending is essential to keep US forces up to date.

Yesterday's defence budget provided some of the first details of proposed government spending for fiscal 1997. Last month, President Bill Clinton submitted a barebones outline of his spending and revenue plans for 1997 to Congress, as he was required to do by law.

But detail in the document was minimal: with agreement still proving elusive on the current year budget, details of a 1997 budget plan had to be deferred. The document outlined a total government budget of $1,639bn for 1997, with a deficit of $161bn. Both figures are about 4 per cent higher than budgeted figures for the current year.

The proposal for 1997 spending includes funds for "contingency operations", such as the Bosnia peace mission, that are in addition to regular training.

Rapid pace favours leader of pack

By Patti Waldmeir in Washington

Over the next 72 hours, a third of the delegates needed to win the Republican nomination for the US presidency will be chosen in states from Georgia to Maine.

The rapid pace of the voting, and the wide geographical spread, leaves little time either for campaigning or for heavy advertising spending – both factors which are expected to favour Mr Bob Dole, the Senate majority leader and best-known candidate. Powerful figures from the Republican establishment in each state also back Mr Dole, who leads the pack in most opinion polls.

Up to now, the pace of the primary election campaign has been leisurely, with 215 delegates chosen in three weeks.

Later today, eight more states will vote at once, in what has been dubbed Junior Tuesday, to distinguish it from Super Tuesday, March 12, when a number of big states choose their delegates. Between today and Thursday's New York primary, 330 Republican delegates will be chosen, of 996 needed to win the nomination.

Georgia will be the main battleground on Junior Tuesday. But a series of "Yankee primaries" will also be held in five New England states: Massachusetts, Connecticut, Maine, Rhode Island and Vermont. Opinion polls show Mr Dole leading in all these states, but one Vermont poll shows him tied with Mr Pat Buchanan, the conservative commentator.

Massachusetts is the biggest prize of the Yankee primaries, awarding 37 delegates. Late polls give Mr Dole a comfortable lead there. The Boston Globe newspaper puts Mr Dole's support at 33 per cent, ahead of Mr Steve Forbes, the millionaire publisher (15 per cent), Mr Buchanan (14 per cent) and Mr Lamar Alexander, former Tennessee governor (11 per cent).

Both Mr Forbes and Mr Buchanan have targeted independent-minded Maine for a late burst of campaigning. In 1992, a large contingent of voters there supported Mr Ross Perot, the independent candidate. The two men are also hoping to do well in Connecticut, where Mr Buchanan scored 22 per cent support in the 1992 primary, and where Mr Forbes made weekend campaign stops.

In the quirky western state of Colorado, Mr Dole is viewed as vulnerable. Mr Buchanan got 30 per cent of the vote there in the 1992 primary, and both he and Mr Forbes are vying for the support of the 23 per cent who voted for Mr Perot in the presidential poll.

Latest polls show Mr Dole with 33 per cent support, with Mr Forbes at 19 per cent and Mr Buchanan at 17 per cent.

Dole hopes to steal march in Georgia

Senator needs a solid vote and a phone engineer, says Jurek Martin

Anybody calling Senator Bob Dole's Atlanta campaign office yesterday morning heard a cryptic automated reply: "This number is being checked for problems, please try again."

The majority leader must hope the recorded message was not prophetic before the Georgia primary and contests in seven other states across the country today.

This is the day when Mr Dole has reasonable expectations of finally breaking clear of the Republican pack of contenders for the party's presidential nomination.

His hopes have been bolstered by the comments of Georgia's most prominent politician.

Mr Newt Gingrich, the House Speaker, cast his absentee vote for Mr Dole in Georgia yesterday. He called Mr Dole "a great leader" who would beat President Bill Clinton in November.

Earlier the Speaker had urged Mr Lamar Alexander, the former governor of Tennessee, and Senator Dick Lugar of Indiana to withdraw. Both chiefly draw support away from the majority leader. He also predicted that if Mr Dole "has the kind of Tuesday he is capable of I think he will clearly be the presumptive frontrunner on a pretty big scale".

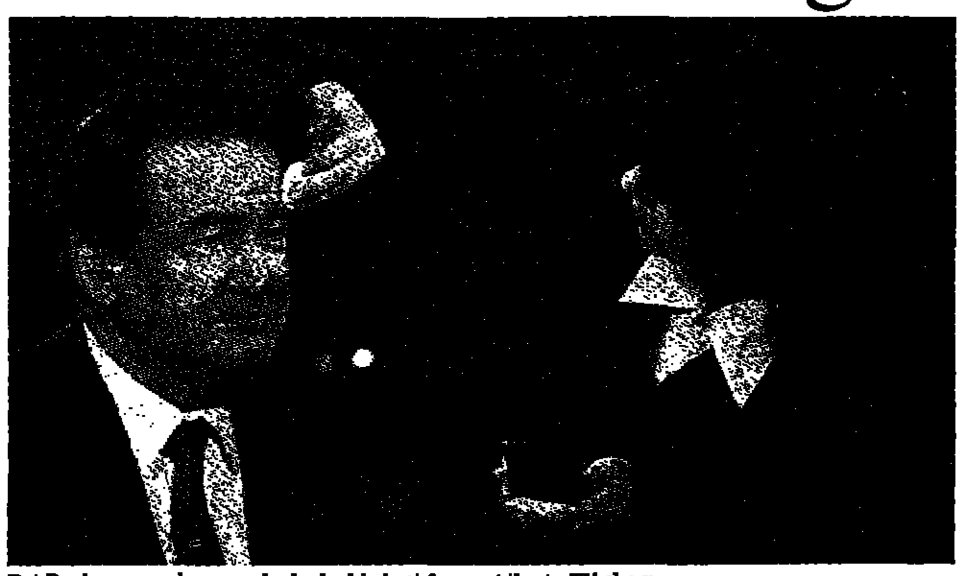
In a Sunday night TV debate noteable for Mr Dole's absence, Mr Alexander said he would stay in until the Super Tuesday primaries next week. But an aide to Mr Lugar said the candidate would "re-evaluate" his position if he did not finish in the top two in Maine and Vermont today.

The debate itself, a three-way affair between Mr Alexander, Mr Pat Buchanan, the conservative commentator and Mr Steve Forbes, the millionaire publisher, was more noteable for an offstage fracas. Mr Alan Keyes, a minor candidate, was arrested outside the TV studios after protesting at his exclusion from the debate.

The participants naturally criticised Mr Dole's non-appearance, with Mr Buchanan frequently trying out his new attack line that the majority leader was a "collaborator" with Mr Clinton on issues from Bosnia to Nafta.

But the Georgia primary is not easy to call. In 1992 Mr Buchanan scored 36 per cent against President George Bush, one of his best performances, but the latest Atlanta Constitution poll gave Mr Dole 31 per cent, Mr Buchanan 23 per cent, Mr Alexander 16 per cent and Mr Forbes 10 per cent.

These are similar pre-election numbers to those in South Carolina, which on Saturday gave the majority leader a convincing victory, with Mr Alexander finishing a bad fourth behind Mr Forbes.



Pat Buchanan makes sure he looks his best for an Atlanta TV show — Associated Press

Notwithstanding the implicit backing of Mr Gingrich and unequivocal support from Senator Paul Coverdell, the local Republican establishment has nothing like South Carolina's unity and influence, which so profited Mr Dole.

Governor Zell Miller is a Democrat, as is Senator Sam Nunn. The Democratic party still controls both state assembly houses, although its base has been whittled down to rural areas and to blacks, who comprise 27 per cent of the population.

Mr Alexander's remaining hopes lie with moderate white Republicans, many of them recent Democratic converts, who have long been attracted to the sort of progressive "new south" politician he considers himself to be.

That appeal started with Mr Jimmy Carter, former president and governor, and includes Vice President Al Gore and Mr Clinton.

Modern Atlanta, home of this year's Olympics, Coca-Cola and CNN, and the business and financial "heart of the South", dominates the state but is not entirely typical of an economy that features more than its share of low-wage industries.

Thus Mr Buchanan, always sensitive to local symbols, took his protectionist message yesterday to LaGrange, site of a textile plant destroyed by fire some years back but rebuilt by its owner, Mr Roger Milliken. In the debate, Mr Buchanan commended Mr Milliken, his best known financial backer, for not relocating the facility in Mexico.

Intra-state disparity matters because this is not a winner-take-all primary like New Hampshire and Arizona. The 42 convention delegates at stake are allocated in each of Georgia's 11 congressional districts, with a bonus for the statewide victor.

As Mr Tom Baxter of the Atlanta Constitution cautiously concluded his column yesterday: "The newly-minted frontrunner [Mr Dole] needs a solid consistent vote from a state that, until this past weekend at least, was extremely shaky." That, and a telephone engineer.

Argentina in island fishing licence protest

By David Pilling in Buenos Aires

Argentina is threatening to lodge an official complaint with London today that Argentine-registered boats are being forced to pay licence fees to fish around the UK dependency of South Georgia in the south Atlantic.

"We deplore the British attitude which is not compatible with dialogue and which threatens the continuation of talks about a fishing agreement [in Falklands waters]," an official at the Argentine foreign office said yesterday.

It was "99 per cent certain" that Buenos Aires would lodge an official complaint.

Argentina claims sovereignty over South Georgia, which lies 800 miles south-east of the disputed Falkland islands.

In 1982, commercial activities by an Argentine scrap-metal merchant in South Georgia sparked the brief but bloody Falklands war.

The Argentine protest over fishing licences follows local press reports that an Argentine-registered vessel, the Antarctic III, was last week intercepted by two British boats and "forced" to pay a £70,000 fee to catch toothfish, a south Atlantic delicacy sold in Japan and Europe.

British officials said yesterday there was no such incident and that the Argentine vessel had merely applied for and been granted a fishing licence.

Such licences were introduced in 1993 and had been granted in the past to vessels registered in Chile, the US, South Korea and Russia. Argentine vessels had never previously applied.

The Argentine foreign ministry denied it had any knowledge of the licence-fee system and said Argentine vessels had fished for several years around South Georgia without hindrance.

It did not recognise Britain's right to collect licence fees in disputed waters.

"Everyone knows there is a licensing regime. It's been there since 1993," said a British Foreign Office official. The system, administered by the 21-nation Convention for the Conservation of Antarctic Marine Living Resources, was purely for conservation.

Britain feared that overfishing could wipe out toothfish stocks, much as had happened to whales in South Georgian waters.

Officials said Argentine and other ships had fished "illegally" in South Georgia in previous seasons, but that Buenos Aires had been warned waters would be more rigorously patrolled this year.

The Foreign Office issued a statement yesterday in response to suggestions that the British navy had heightened tension by sending a "gunboat", HMS Northumberland, to South Georgian waters.

"There has been no increase in naval deployment in the region. The fishery around South Georgia opened on March 1 but there is no increase in tension," the statement said. HMS Northumberland "regularly" patrolled South Atlantic waters, officials said.

Mr Guido Di Tella, Argentina's foreign minister, said at the weekend that President Carlos Menem of Argentina would not accept an official invitation to visit London until the South Georgian incident and South Atlantic fishing policy in general had been properly hammered out.

"We are in no hurry," a spokesman said yesterday.

Anglo-Argentine fishing talks, which aim to set quotas in waters around the Falklands, were held in Buenos Aires last week.

According to both sides, the informal talks made little progress with a "gulf" remaining between the two sides.

Britain has been seeking a multi-year agreement to provide a fishing regime for the south Atlantic to replace the current arrangement where quotas are arranged annually.

Budget deadlock leaves Puerto Ricans in limbo

Washington's final decision on tax credits has strong bearing on island's future, writes Canute James

The deadlocked budget battle in Washington between President Bill Clinton and Republican legislators is causing an increasingly bitter division among the people of Puerto Rico.

Buried below the more contentious arguments in the budget debate are proposals and counter proposals for changes to tax incentives for US companies investing in Puerto Rico, which have been central to the rapid industrialisation of the island.

While legislators in Washington see an end to the tax breaks, giving savings to the federal budget of about $20bn (£12.9bn) over five years, the debate in Puerto Rico is being waged over the more emotional issue of the island's political future.

What is eventually decided by Washington about Puerto Rico's tax credits will influence the islanders' decision as to whether they remain a quasi-colonial "commonwealth", become a state of the union, or a politically independent country.

Section 936 of the federal revenue code allows income tax and wage credits to subsidiaries of US companies operating in Puerto Rico. Interest earned on income is also tax free.

These funds of several billion dollars have underwritten the island's financial stability. The tax incentives have attracted hundreds of companies to Puerto Rico, particularly those involved in pharmaceuticals and electronics, with manufacturing accounting for about 40 per cent of the gross domestic product.

Washington's budget cutters have seized on Section 936, saying it must be phased out over 10 years. Mr Clinton, however, has proposed the end to income tax credits over seven years, but an extension of the wage credits. Companies which have invested in Puerto Rico oppose the end of Section 936. Without the incentive, they argue, the island would suffer rapid disinvestment.

"In an atmosphere of budget cuts, we can't fairly expect that Section 936 will not be touched," said Mr Marcos Rodriguez-Ema, president of the Government Development Bank of Puerto Rico. "There was an amendment to Section 936 in 1993, but the manufacturing sector rebounded. The possibility of change always brings some exaggerated predictions. We feel confident that in five to eight years nothing will affect the manufacturing sector adversely."

> 'There has been no significant new production coming to Puerto Rico during this period of uncertainty'

Of the options being considered in Washington, the manufacturing sector is lining up behind the administration's proposal. "We back President Clinton's proposal but we are asking him to improve it," said Mr Hector Jimenez Juarbe, vice-president of the Puerto Rico Manufacturers' Association.

"There has been no significant new production coming to Puerto Rico during this period of uncertainty, although some companies have gone ahead with earlier expansion plans. There is increasing employment in the electronics industry, but we have lost jobs in textile and apparel, while pharmaceuticals have not expanded," he said.

It is not surprising that the issue has become enmeshed in the perennial debate about Puerto Rico's political future. The island is officially described as a "free associated state" of the US. Puerto Ricans are US citizens, but cannot vote for a president.

The island's representation in Washington is limited to a commissioner who has no vote to influence legislation. In the last referendum in 1993, 48 per cent voted for the status quo, 46 per cent supported statehood, while 4 per cent wanted political independence.

The incumbent New Progressive party, which wants Puerto Rico to become a state of the union, is against the retention of Section 936. The tax incentives are incompatible with statehood, the party argues.

Despite Section 936, Puerto Rico is still poorer that other parts of the US, runs the pro-statehood argument.

They point to the fact that federal transfers to Puerto Rico last year for social security and Medicaid totalled several billion dollars, while unemployment at 13.8 per cent last year is still twice the US rate.

Maintaining Section 936 and Puerto Rico's Commonwealth status is the only guarantee of continuing economic expansion, according to the opposition Popular Democratic party.

As a state of the union Puerto Rico would be far behind Mississippi, the poorest, and cause many islanders to migrate to the mainland. Without Section 936 the manufacturing sector would collapse and hundreds of thousands of jobs lost, the PDP argues.

Several of Puerto Rico's neighbours are also concerned about the outcome of the Section 936 debate. A threat to the 936 programme by US lawmakers in 1986 was averted when the Puerto Rican administration agreed to use some of the deposits as low interest loans for the expansion of business and industry in the Caribbean.

The loans to 10 countries, at rates lower than the prevailing Libor, have reached $1.2bn. Many governments will consider as unfortunate an end to a source of cheap development funds while investment and bilateral flows from Europe and North America have been falling.

Such concerns will not affect how Puerto Ricans vote in the gubernatorial election in November, which will provide an indication of how they feel about their future.

In advance of the next plebiscite on status, for which no date has been set, a win in November by the governor, Mr Pedro Rosello of the NPP, would suggest support for statehood.

Those supporting Commonwealth status would be buoyed by a win by Mr Hector Luis Acevedo of the PDP. Supporters of independence will again struggle to get more than 5 per cent of the vote.

New look for $100 bills this month

Redesigned $100 bills aimed at foiling increasingly sophisticated counterfeiters will be shipped to banks in the US on March 25, AP reports from Washington.

The Treasury Department and Federal Reserve said yesterday the initial shipment would be $80bn in new bills, which feature a large, off-centre portrait of Benjamin Franklin and security features such as colour-shifting ink and a watermark.

The shipment represents a third of the estimated $240bn of $100 notes circulating nationwide, officials said.

The new bills will gradually replace those already in circulation as banks deposit the older money with the Federal Reserve. For now, both old and new bills will circulate.

Fed Governor Susan Phillips said the government would not recall or devalue the old currency.

The $100 bill is the first in a series of redesigned notes, with new versions of smaller denominations appearing over the next five years.

Last week, a House banking subcommittee heard that counterfeiting of US currency, particularly the $100 bill, is on the rise overseas.

● Reuter adds from Washington: US consumer spending dropped in January at the sharpest rate in nearly 3¾ years while incomes grew only weakly, the Commerce Department said yesterday.

Spending dropped 0.5 per cent to a seasonally adjusted annual rate of $5,010bn in January following a 0.9 per cent December increase. Incomes edged up by just 0.1 per cent to $6.25bn after a 0.6 per cent December gain.

Severe winter weather affected the January figures, although the department said it could not put a dollar figure on the impact.

Wall Street analysts had anticipated a 0.3 per cent drop in incomes in January but only a 0.1 per cent fall in spending. "All in all, it supports our view that the economy is just downshifting a bit, but we are not going into recession," said Mr Waldo Best, senior economist at Barclays de Zoete Wedd Government Securities.

هكذامن الأجل

Two weeks of terror kill Peres's hopes

In his worst nightmares Israeli Prime Minister Shimon Peres could not have imagined anything more devastating to his political future and the Middle East peace process than the horrific terrorist attacks of the past nine days.

Only two weeks ago Mr Peres was riding high. The peace process with Palestinians had never looked so good. For seven months there had been no Islamic terrorist attacks against Israelis and the Palestinians had just elected Mr Yasser Arafat as their president at the head of an elected legislative council broadly supportive of making peace with Israel.

The veteran 72-year-old politician was substantially ahead in opinion polls, influenced by the wave of public sympathy following the assassination of former prime minister Yitzhak Rabin last November by a right-wing Israeli fanatic. He seemed certain to win the early elections he had called for May 29 on on a platform of making peace with Arabs.

Having led his party to four electoral disappointments in 19 years, Mr Peres finally looked set to receive an unambiguous endorsement from his people, to lead the country he had served all his life.

Terror attacks in Israel: chronology of violence

Yesterday's Tel Aviv bomb blast was the fourth attack since Hamas master bombmaker Yahya Ayyash was killed in January. Hamas blamed Israel for his death and vowed revenge.

Following are details of the cycle of bloodshed since Ayyash died:

Jan 5: Hamas master bombmaker Yahya Ayyash dies when cellular phone explodes in his hands in Gaza. Palestinians blame Israel, which declines to take responsibility.

Feb 25: Suspected Islamic bombers kill 26 people in separate attacks in Jerusalem and Ashkelon. Security sources said the bombings were in revenge for the killing of Ayyash.

Feb 26: Arab-American Ahmed Abdel Hamideh rams his car into crowd at Jerusalem bus stop, killing one woman and injuring 22 people in queue. Bystanders shoot him dead. Hamas said attack was to avenge death of Palestinian militant Fathi Shqaqi, whom Palestinians accuse Israeli secret service agents of killing in Malta last year.

Feb 28: Hamas and its Qassam military wing issue statement offering to halt attacks against Israeli civilians in exchange for a prisoner release and other conditions.

March 1: Israeli Foreign Minister Ehud Barak rules out negotiations with Hamas.

March 3: A bomb blast in a bus in Jerusalem killed at least 18 people and the suicide bomber. The attack occurred on the same route and one week almost to the minute after that carried out the previous Sunday.

March 4: A bomb at a busy Tel Aviv shopping mall kills at least 10 people and wounds 30 Israel radio said. Israeli television said 40 to 50 people were wounded. Army radio said the blast was apparently caused by a suicide bomber.

Source: Reuter

Last night, after a fourth devastating suicide bomb attack by Islamic extremists in eight days, his government was in deep crisis, the country appeared on the brink of a national state of emergency and Mr Peres himself was a man under extreme strain.

The peace process Mr Peres has laboured so hard to bring about was in serious danger of crumbling at the precise moment when he thought he was close to making it irreversible.

As Mr Peres called an emergency meeting of the cabinet, he was being hammered from all sides: by Islamic militants; by the hard line right-wing opposition Likud party; and by a grief-stricken, violently angry public clamouring for revenge.

The ultra-right wing, forced underground by public outrage which followed Rabin's assassination, has re-emerged with vociferous attacks on Mr Peres and his government.

More importantly, yester*day's attack came in spite of* stringent measures announced by Mr Peres in the past eight days which have made Israel look like a country preparing for war.

A day after Mr Peres declared an "all out war anywhere by any means" against Islamic terrorism, the Tel Aviv attack has made the prime minister look helpless.

It is the worst possible image for the leader of a country fearful of its survival and security, and it has revived deeply-held fears that Mr Peres is simply not the right man to take the measures needed to guarantee their personal safety.

Opinion polls have not yet been published since Sunday's suicide bombing. But last week Mr Peres saw his 15-point lead over Likud leader Mr Benjamin Netanyahu disappear after the first three attacks. Pollsters said last night that surveys in the coming days would show a further swing against him.

Mr Netanyahu, however, has emerged from the crisis looking good. He has presented himself as calm and solid in a time of national emergency.

He has advocated security measures which would torpedo the peace process but which, to many Israelis, seem reasonable in the circumstances. And he has carefully implied that his opposition to the peace process and to dealing with Mr Arafat, whom he calls a terrorist, has been vindicated by the attacks.

If Mr Netanyahu is elected prime minister in May, he promises to freeze the peace process and contain Palestinians in autonomous cantons tightly surrounded by Israeli troops – a move which would certainly terminate the peace process and Israel's gradual normalisation of relations with the Arab and Islamic world.

It is still too early to write off Mr Peres and the Middle East peace process. Elections are three months away. But it is hard to see how he can respond to the public demand for more decisive action without undermining the fragile peace with Palestinians.

Furthermore, devising security measures which can guarantee an end to attacks by fanatical suicide bombers is almost an impossibility. Yet Mr Peres must be seen to be doing something dramatic urgently.

Senior government officials said last night the government was facing its gravest crisis since taking office in 1992. Several ministers raised the prospect of canceling the early elections and forming a national unity government with the opposition.

But both moves are unlikely to win the support of the opposition. Even if the bombings were halted, *officials said*, it would take a near miracle to return the government to the popularity it enjoyed only two weeks ago.

Julian Ozanne

Capital markets borrowing reaches record level

By Samer Iskandar and Conner Middelmann

Borrowing on the international capital markets set a new record last year with overall financing activity growing by 30 per cent to $1,258bn (£823bn), according to the latest financial market report published by the Organisation for Economic Co-operation and Development.

The volume of syndicated credits reached $368.4bn, up from $236.2bn in 1994 and $136.7bn in 1993. Syndicated credits accounted for 29 per cent of total financing, becoming the most important international financing instrument.

By contrast, issuance in eurobond and foreign bond markets ($461bn) recovered from a fall in 1994 ($429bn), but fell short of the record $481bn issued in 1993.

The importance of straight bonds continued to decline. In 1995, they accounted for 28 per cent of all financing, down from 45 per cent in 1993.

Arrangement of all types of committed and uncommitted borrowing facilities amounted to $388bn last year, up from $258bn in 1994.

This increase was almost entirely a result of the rise in the arrangement of euro-medium term notes (EMTN), which rose from $222bn in 1994 to $341bn in 1995 while the arrangement of euro commercial paper (ECP) programmes grew to $45bn from $31bn. In the loan market, fierce competition among banks caused interest margins to fall close to lows last seen in the late 1980s.

Lower margins made it more attractive for borrowers to refinance existing loans. Last year, refinancing operations reached $99.7bn, a year-on-year increase of 85 per cent, and refinancing accounted for 27 per cent of all loans arranged, compared with 23 per cent in 1994, the OECD said.

The OECD area accounted for 88.7 per cent of all syndicated lending. Among OECD countries, the US was the biggest player, raising $195.1bn in 1995. The second-most important country was the UK, where borrowers signed loans worth $35.7bn.

There was a big increase in recourse to the international market by continental European companies, which have traditionally preferred domestic loans. Germans raised $15.2bn in 1995, compared with $1bn in 1994 and $2.2bn in 1993; French borrowers signed loans worth $11.8bn, up from $5.1bn in 1994.

In the bond market, Japanese retail investors' appetite for yen and foreign currency bonds was seen as an encouraging factor to issuance.

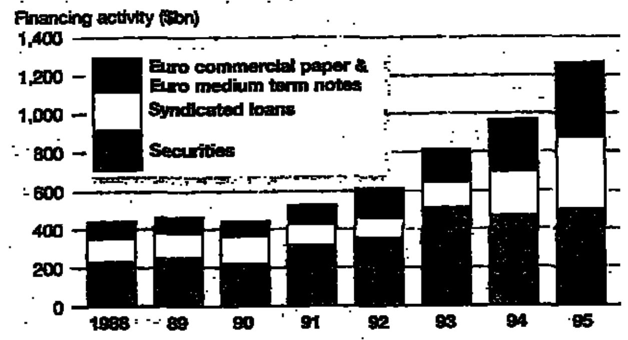
As their bank deposits fell due, Japanese "investors were searching for high-yielding replacements even at the price of taking some exchange rate risk", the report's authors wrote.

However, they also singled out an important offsetting factor – the tightening of interest rate swap spreads.

As a result, several "important borrowers... either postponed their fund-raising or turned to other market compartments, in particular syndicated loans."

International capital markets

Financing activity ($bn)



Source: OECD/DAF

In the emerging markets, Latin American borrowers suffered in the first quarter from the after-effects of the Mexican financial crisis. However, issuance picked up in the second quarter and totalled $13bn in 1995, up from $10bn in 1994.

Looking ahead, "market conditions appear to be reasonably favourable for issuance", the OECD said, but "much will depend on swap opportunities".

INTERNATIONAL NEWS DIGEST

Iraq unsettles oil markets

World oil markets were unsettled yesterday by a report that Iraq was about to accept United Nations Resolution 986, authorising a $2bn oil-for-food plan. A report in a Baghdad newspaper owned by President Saddam Hussein's son suggested Iraq would accept the resolution, which allows for limited oil sales to pay for for humanitarian supplies.

But Iraqi officials later said several hurdles still had to be overcome before an accord could be reached. Mr Amir Muhammad Rasheed, Iraq's oil minister, said: "We are very positive about the talks with the United Nations." But he added: "There are points which need further discussion."

Talks on UN Resolution 986 are due to resume in New York on Monday. *Robert Corzine, London*

Debt relief for Zambia

The Paris Club, the western creditor forum, has agreed to write off 67 per cent of cash-strapped Zambia's $550m debt, Mr Ronald Penza, the Zambian finance minister, said yesterday. The impoverished southern African state's debt servicing obligation will fall from $139m to $37m a year. The remaining debt will be repaid over 33 years at consolidated concessional interest rates.

Paris Club creditor countries at the meeting were Britain, the US, Germany, Japan, Canada, France, Italy, Austria and Brazil. Zambia's total debt stock is $6.3bn. *Reuter, Lusaka*

Global warming accord attacked

An attack on the "official consensus" on global warming was launched yesterday by 24 leading scientists to coincide with United Nations talks in Geneva on how to respond to climate change. In a book* published by the European Science and Environment Forum, scientists say the evidence for man-made global warming is deeply flawed, governments are being misled into taking costly and perhaps unnecessary adjustment measures and potential benefits are being deliberately downplayed. These include expansion of fertile land in colder countries and the impact of increased carbon dioxide, the main greenhouse gas, in promoting plant growth.

* *The Global Warming Debate. Available from ESEF, 73 McCarthy Court, Banbury Street, London SW11 3ET, fax +44 171 924 2307, £17.* *Frances Williams, Geneva*

SA court postpones Malan trial

A South African supreme court judge yesterday postponed for a week the start of the murder trial of General Magnus Malan, the former defence minister, and 19 others to give defence lawyers more time to prepare their case.

Mr Tim McNally, attorney general for the province of KwaZulu-Natal, who is leading the prosecution, acknowledged two of the accused had only received the document relating to additional charges that morning. *Roger Matthews, Durban*

Afghan gas pipeline accord

Afghanistan has signed an agreement that could eventually lead to construction of a high-pressure natural gas pipeline across the country. The proposed pipeline would transport gas from Turkmenistan to Pakistan, where there is a high demand for gas to fuel power projects. Bridas, the Argentine industrial group that is one of the largest foreign investors in Turkmenistan, signed the accord on behalf of TAP Pipelines International, a consortium which includes Turkmen, Afghani and Pakistani interests. *Robert Corzine, London*

Major warns Beijing to uphold Hong Kong agreements

By John Kampfner and John Ridding in Hong Kong

Mr John Major, the UK prime minister, yesterday announced a five-point package designed to demonstrate Britain's commitment to Hong Kong after its handover to China next year and warned Beijing to uphold agreements on the colony's future.

In an unexpectedly tough speech at the end of his visit to Hong Kong, Mr Major said Britain would "mobilise the international community and pursue every legal or other avenue available" if there were any breach of the 1984 Sino-British pact on Hong Kong. He was referring to China's threat to abolish the Legislative Council (Legco), which became fully elected last year under reforms introduced by Governor Chris Patten, and to amend the colony's bill of rights.

Speaking at the end of what may be the last visit to Hong Kong by a British prime minister before the July 1997 handover to China, Mr Major said that curtailment of Legco's term would constitute a breach of the 1984 Sino-British Joint Declaration.

The measures extend visa-free access to permanent residents in Hong Kong. New rights will be granted to the 2.4m people eligible for passports of the Special Administrative Region, as Hong Kong will be known after 1997. Mr Major also said Britain would guarantee right of abode for 7,000 members of non-Chinese minorities, mainly from India and Pakistan, if they came under pressure to quit Hong Kong.

In a move to internationalise the Hong Kong issue, likely to annoy Beijing, Mr Major said: "We do not and we will not simply lie down and accept what we are told." Officials said Britain reserved the right to ensure China's compliance with the Joint Declaration by appealing to the International Court of Justice and using the United Nations Security Council.

Directly appealing to the people, he said: "If you don't appear to care about the survival of Hong Kong's system, its rule of law, clean government and a free society, others may draw the conclusion these don't really matter."

Reaction to the speech was mixed. Mr Ian Christie, director of the Hong Kong General Chamber of Commerce, described it as "reassuring" and said it would boost business confidence in Hong Kong. Mr Martin Lee, leader of the Democratic party, the largest group in Legco, said Mr Major had failed to specify what actions Britain would take in support of the colony's elected institutions. Mrs Emily Lau, an independent legislator, claimed the speech provided some reassurance but much more should be done, notably the granting of citizenship to Hong Kong's 3.5m British subjects.

The Indian Resources Group, representing ethnic Indians, said Mr Major's statement did not remove underlying anxieties; they would continue to press for full British citizenship.

The concession on visas was pushed through after pressure from Mr Patten, a close political friend of Mr Major, and in the face of resistance from Mr Michael Howard, UK home secretary, and other Conservative party rightwingers.

Mr Patten argued that Hong Kong citizens were extremely unlikely to contravene immigration rules, and that free travel between Hong Kong and London was essential for Britain's commercial interests.

Asked by a businessman in the audience whether he could sleep at night in the knowledge Hong Kong's 6m people were to be returned to a regime many opposed, Mr Major said: "I don't like it any more than you, but I have to obey the law."

George Parker in London adds: Some Conservative MPs claimed the visa concession could provide an easy route for Hong Kong citizens to settle in the UK. Mr Charles Wardle, a former immigration minister, claimed that anyone who said the proposal would not increase the risk of immigration abuse was "talking through his head". "Some of the people who will make their way here as visitors and will stay over illegally will include people originally from South China," he said.

"When we have a £90bn [$59bn] social security budget, is that a wise move?"

The rightwing Tory MP Nicholas Budgen said the decision would cause "resentment" in Britain.

Editorial comment, Page 15

Bangladesh opposition leader Sheikh Hasina (right) attends prayer with thousands of other women at the Moslem Biswa Ijtema rally, near Dhaka yesterday. The event drew 700,000 devotees Reuter

Bangladeshi opposition to call strike tomorrow

By Mark Nicholson, South Asia Correspondent

Bangladeshi opposition parties said they would call a day-long strike tomorrow and an indefinite period of "non-co-operation" three days later, having rejected as a "ploy" to retain power the offer by Prime Minister Khaleda Zia to hold future elections under a neutral administration.

Sheikh Hasina, leader of the Awami League, which heads the three-party opposition movement, said she would not accept Mrs Zia's offer, made in a televised address on Sunday, since this would "legitimise" the parliament elected in boycotted polls on February 15.

The Awami League and two other main parties say the poll, which the ruling Bangladesh Nationalist party (BNP) won essentially unopposed, was "a fraud". Sheikh Hasina demanded Mrs Zia resign, annul the earlier poll and "clearly state a specific time for holding an election under a caretaker government".

Diplomats in Dhaka said the opposition rejection of the offer and further strike calls would pitch the country into "another round of destructive deadlock", with the likelihood of increased violence and economic disruption over coming weeks.

More than 30 people have been killed and hundreds injured in clashes between strike-enforcing opposition activists and security forces over the past month. More than 400 of the country's 2,000 garment factories, which account for 60 per cent of Bangladesh's export earnings, have closed for want of orders during the past two months of strikes and street violence, according to the Bangladesh Garment Manufacturers and Exporters Association.

Mrs Zia said she would introduce a bill in the BNP-dominated parliament to allow for a neutral, interim government to preside over fresh elections. This would then be put to a national referendum. The offer was an attempt to meet the opposition's main demand, an unresolved dispute over which has paralysed politics for more than a year.

One man was shot dead and more than 50 injured in demonstrations in Dhaka and other cities immediately following Mrs Zia's address.

NTT spurred on by break-up threat

Michiyo Nakamoto on why the Japanese telecom giant has become unusually busy

This year, millions of Japanese telephone users can look forward to lower charges and greater choice in communications services, courtesy of NTT. The Japanese domestic telecommunications company, the world's biggest telecoms operator both by market capitalisation and revenue, has been unusually busy in the past year.

It has announced plans to help its competitors in the long-distance market reduce rates and provide varied services, and cut its own rates to "lower than the standard in the industrialised world" by the early 21st century.

For that, the Japanese public should thank not NTT, perhaps, but the Telecommunications Council, a government advisory panel which last week called for the break-up of the company into one long-distance and two regional operators by March 1998.

The threat the council would recommend a break-up has been the main trigger for NTT's new-found willingness to address criticism that its size and dominance of Japan's telecoms markets allow it to overcharge users and hamper the development of competitors by denying them fair access to its networks.

If it can stay in one piece, NTT indicates, it will become a leaner organisation, reducing rates and offering competitors fair use of its local lines at reasonable cost.

Despite NTT's efforts to avoid a break-up, the council, whose recommendation carries considerable weight with the government, delivered the verdict last Thursday that a break-up of NTT was crucial in taking Japan's telecoms industry into the new age of information and communications.

The council's argument, echoing that of the Ministry of Posts and Telecommunications, is that without breaking up NTT, only limited competition can be introduced into the market through measures such as deregulation.

Despite the introduction of competition 10 years ago, NTT controls 99 per cent of the local network, which in turn makes up 80 per cent of the domestic telecoms market. This control also gives it a distinct advantage over its competitors in the long-distance market, the council argues.

NTT has lost long-distance market share since competition was introduced, but its share of that market is still formidable, at 69 per cent. NTT's control of the local network has prevented its long-distance competitors from providing lower rates and diversified services in a timely manner, the council notes.

Neither do new market entrants, such as operators of cable television, cellular phone services or a cheaper version called PHS, provide real competition.

That is because a caller using any of those systems can connect to someone using a regular phone only by going through NTT's local network.

To eliminate what it calls NTT's "bottleneck monopoly", the council says NTT should in the next three years be broken up into one long-distance company and two regional companies serving eastern and western Japan.

The long-distance operator would be completely privatised and allowed to expand into regional markets, cable TV, international markets and to provide contents. It would take over NTT's subsidiaries in data communications, mobile communications and personal communications.

KDD, Japan's largest international carrier, would be permitted into the domestic market.

Initially, the two regional operators would not be allowed to provide long-distance, international or cable services from their own business areas or to provide content services. But they would be allowed into these businesses outside their regions. As competition intensifies, this distinction would be lifted. These companies would eventually be completely privatised.

The limit on the foreign share of long-distance NTT would be relaxed from 20 per cent to one-third.

A yardstick system, whereby companies would be required to lower their rates to the level of the most efficient company, should ensure competition takes place within the regional networks, the report states.

Shareholders should benefit from enhanced efficiencies at the companies after the break-up, the council forecasts.

In response, NTT warns the break-up would result in regional differences in service quality and charges, and that the regional company serving western Japan could fall into the red.

Revenues of the long-distance company would drop to less than half of either AT&T of the US or British Telecom, leading to a loss in Japan's international competitiveness.

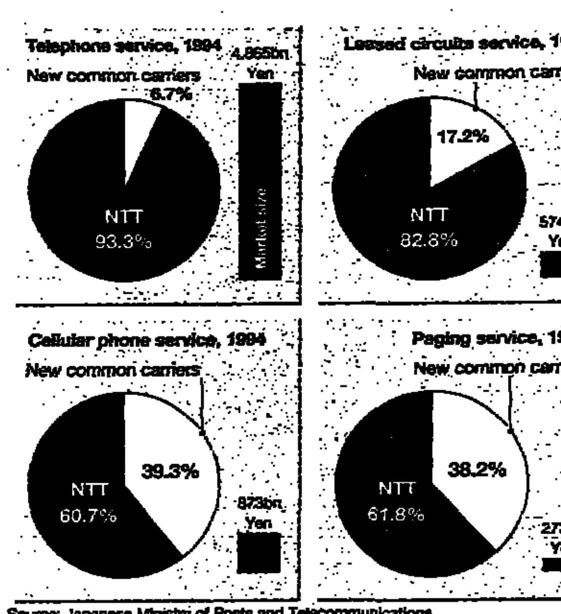
To make matters worse, the entire operation would cost Y450bn ($4.27bn), NTT claims.

As the debate over the future of NTT and the Japanese telecoms market moves from the advisory panel to the political stage, both sides are mustering their forces in a last-ditch effort to steer the outcome in their favour.

A decision should be made by the end of March. But politicians, fearful of losing support from the powerful telecoms labour union, which opposes a break-up, have wavered in the face of possible elections this year. The decision, already put off twice since NTT was privatised, could again be postponed.

Whether they are for or against a break-up, many in the industry say a postponement would be the worst outcome. Having had to operate in an environment of uncertainty when the industry is going through rapid change, further indecision can only prolong the damage.

NTT share of domestic market



Source: Japanese Ministry of Posts and Telecommunications

Howard promises updated budget data

By Nikki Tait in Sydney

As senior members of Australia's new Liberal-National coalition government met Treasury officials yesterday, Mr John Howard, prime minister-elect, said updated information on the country's budgetary position would be released after his new administration was sworn in.

Separately, Mr Bill Kelty, secretary of the Australian Council of Trade Unions, resigned from the board of the Reserve Bank, the central monetary authority, in a move which signalled how different relations between the new government and the union movement will be from the former Labor-union nexus.

Mr Howard said that a statement on the fiscal situation would be made in a few days. "I will be getting a briefing from the Treasury later today, and the statement about that issue would be made as soon as possible, after the government has been sworn in," he added.

"We're not talking about weeks, we're only talking about a few days."

Throughout the election campaign, both sides based their pledges on official forward estimates almost a year old. These had suggested the federal budget should be in surplus in 1996-97, but many economists think the position has deteriorated sharply since then, and that the country could now be looking at a deficit of A$3bn-A$9bn (US$2.28bn-US$6.85bn).

Given that the coalition has promised new expenditure measures of A$6.3bn (spread over three years) and has said that it will not raise taxes, its ability to move to an underlying surplus in the 1996-97 financial year could be constrained.

Mr Kelty's resignation surprised some observers with its swiftness. The union leader, a powerful figure in the labour movement, said he had discussed the situation with the Reserve Bank governor, and believed "my continued membership of the board may be inconsistent with my union responsibilities".

During the election campaign, Mr Kelty warned that if a coalition government moved to diminish workers' protection, the union movement would put up fierce resistance. In the absence of any incomes policy arrangement, he said workers would push for bigger wage increases. The Reserve Bank, in official statements, has repeatedly warned about the need to keep a close eye on wage inflation.

In a letter to Mr Howard, Mr Kelty congratulated the new prime minister, but said his resignation hinged on the refusal of the incoming administration to enter a prices and income accord.

Under the previous accord with Labor, "it was reasonable and feasible for the ACTU to support the Reserve Bank's 2-3 per cent inflation target". But "with abolition of the accord processes and a renewed emphasis on market forces in wage matters, I do not see how I could satisfactorily reconcile my union and board responsibilities".

On the financial markets, the coalition's huge weekend win, which brought to an end 13 years of Labor rule, received a mixed response.

The Australian dollar rallied initially, but eventually closed lower, with some analysts talking of caution until the fiscal situation is clarified. Bond yields fell, with the benchmark 10-year bond moving over 20 basis points lower to 8.34 per cent.

The stock market opened late, due to technical problems, but most leading shares rose. Gains in the banking, mining and media sectors were particularly strong; these stand to benefit from coalition policies.

Mr Howard said the coalition would pursue the sale of the government's remaining 50.4 per cent stake in Commonwealth Bank "as soon as market circumstances permit".

Asked whether an increased vote for the minor parties which control the balance of power in the Senate, parliament's upper house, gave them a mandate to block the partial privatisation of Telstra, the large telecoms group, Mr Howard said he believed "mandates are only conferred on governments, because only they can initiate legislation".

INTERNATIONAL ECONOMIC INDICATORS: BALANCE OF PAYMENTS

Trade figures are given in billions of European currency units (Ecu). The Ecu exchange rate shows the number of national currency units per Ecu. The nominal effective exchange rate is an index with 1985=100.

UNITED STATES

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1985	279.8	−174.2	−163.0	0.7623	100.0
1986	231.0	−140.6	−153.4	0.9836	81.4
1987	220.2	−131.8	−144.1	1.1541	71.9
1988	272.5	−100.2	−107.4	1.1833	67.0
1989	330.2	−99.3	−94.3	1.1017	70.0
1990	309.0	−79.3	−72.7	1.2745	66.7
1991	340.5	−53.5	−6.0	1.2391	65.7
1992	345.9	−66.2	−47.5	1.2957	64.4
1993	397.3	−98.7	−85.4	1.1705	66.3
1994	432.3	−127.0	−127.6	1.1857	65.1
1995	452.2	−123.9		1.2928	61.2
1st qtr.1995	111.4	−32.6	−30.9	1.2619	62.7
2nd qtr.1995	110.1	−33.1	−32.8	1.3175	59.0
3rd qtr.1995	113.2	−31.2	−30.3	1.3020	61.0
4th qtr.1995	117.4	−27.0		1.2897	62.3
January 1995	36.8	−12.0	n.a.	1.2374	64.0
February	37.2	−10.7	n.a.	1.2455	63.3
March	37.4	−9.9	n.a.	1.3029	60.8
April	36.0	−11.1	n.a.	1.3279	58.7
May	37.6	−10.8	n.a.	1.3055	59.1
June	36.6	−11.2	n.a.	1.3192	59.0
July	35.3	−11.5	n.a.	1.3335	59.2
August	38.5	−9.7	n.a.	1.2854	61.3
September	39.5	−10.0	n.a.	1.2772	62.5
October	38.4	−9.6	n.a.	1.2977	61.9
November	38.9	−8.5	n.a.	1.2954	62.2
December 1995	40.2	−8.8	n.a.	1.2758	62.7

JAPAN

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1985	228.2	73.5	64.5	180.50	100.0
1986	208.9	94.2	87.2	165.11	127.7
1987	194.7	83.7	75.5	166.58	138.8
1988	218.7	78.8	67.0	151.51	153.7
1989	245.5	70.6	53.4	151.87	147.0
1990	220.0	50.0	28.5	183.94	132.5
1991	247.6	83.3	62.4	166.44	143.7
1992	254.6	102.1	90.4	164.05	150.7
1993	300.0	120.8	111.7	130.31	181.0
1994	323.5	122.5	108.8	120.99	194.9
1995	331.1	104.2	86.4	121.43	204.8
1st qtr.1995	82.0	27.7	22.8	121.16	202.1
2nd qtr.1995	87.5	29.1	23.4	111.31	225.3
3rd qtr.1995	81.2	25.3	22.7	122.36	203.7
4th qtr.1995	80.3	22.1	17.4	130.87	187.8
January 1995	25.8	8.4	7.6	123.32	196.1
February	28.7	9.6	8.2	122.27	198.1
March	27.5	9.6	7.1	117.89	211.3
April	29.1	8.8	6.2	111.24	226.8
May	29.0	9.9	8.0	111.17	224.4
June	29.4	10.4	9.2	111.51	225.1
July	26.7	7.8	7.2	116.38	217.2
August	28.1	9.5	8.7	122.52	202.6
September	26.5	8.1	6.8	128.19	191.6
October	25.5	6.0	4.2	130.78	188.8
November	26.9	8.0	6.5	131.98	186.8
December 1995	28.0	8.1	6.6	129.85	187.9

GERMANY

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1985	242.7	33.3	22.5	2.2260	100.0
1986	248.5	53.4	41.3	2.1279	108.6
1987	254.4	56.7	40.0	2.0710	114.9
1988	272.6	61.5	41.9	2.0739	114.1
1989	310.1	65.3	52.0	2.0681	113.3
1990	324.3	51.8	38.5	2.0537	118.1
1991	327.3	11.2	[illegible]	2.0480	117.1
1992	330.5	16.6	−16.7	2.0187	120.6
1993	323.0	31.4	−13.4	1.9337	125.3
1994	358.8	37.9	−17.1	1.9198	125.6
1995				1.8509	132.1
1st qtr.1995	94.4	12.0	−2.0	1.8645	131.1
2nd qtr.1995	99.1	12.5	−1.4	1.8402	133.3
3rd qtr.1995	99.0	12.7	−7.1	1.8624	131.7
4th qtr.1995				1.8365	132.3
January 1995	30.8	5.2	−0.4	1.8929	128.7
February	32.0	3.9	−1.5	1.8698	130.0
March	31.6	2.9	−0.1	1.8308	134.4
April	32.9	4.7	−0.9	1.8320	134.5
May	32.1	3.8	−0.1	1.8420	132.9
June	34.2	4.0	−0.5	1.8465	132.7
July	32.5	3.9	−3.0	1.8511	133.0
August	32.0	4.2	−2.6	1.8705	131.1
September	34.6	4.7	−1.6	1.8656	131.1
October	33.3	4.2	−2.2	1.8357	132.9
November	33.6	5.5	0.4	1.8363	132.4
December 1995				1.8374	131.6

FRANCE

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1985	133.4	−3.7	−0.2	6.7942	100.0
1986	127.1	0.0	3.0	6.7946	102.7
1987	128.3	−4.6	−3.7	6.9265	102.7
1988	141.9	−4.7	−3.4	7.0354	100.6
1989	162.9	−6.3	−3.6	7.0169	99.6
1990	170.1	−7.2	−7.2	6.9202	103.8
1991	175.4	−4.2	−4.9	6.9643	102.1
1992	182.5	4.5	2.9	6.8420	105.4
1993	179.6	13.3	8.0	6.5281	109.1
1994	198.8	12.9	6.6	6.5659	110.1
1995	220.8	16.7		6.4460	113.4
1st qtr.1995	55.0	4.7	7.0	6.5115	112.2
2nd qtr.1995	55.8	4.6	3.6	6.4602	113.2
3rd qtr.1995	54.7	3.2	0.8	6.4363	114.0
4th qtr.1995	55.3	4.2		6.3560	114.3
January 1995	17.8	1.3	5.0	6.5464	111.4
February	18.6	1.6	1.2	6.5040	111.7
March	18.5	1.7	0.8	6.4841	113.3
April	18.5	1.8	1.2	6.4371	114.6
May	18.6	1.3	0.9	6.5218	112.2
June	18.7	1.5	1.5	6.4818	113.1
July	17.6	0.7	0.2	6.4424	114.3
August	18.6	1.3	0.3	6.4322	114.1
September	18.6	1.2	0.3	6.4344	113.7
October	18.2	0.9	0.4	6.4104	113.6
November	18.9	2.1	1.8	6.3308	114.8
December 1995	18.3	1.1		6.3269	114.4

ITALY

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1985	103.7	−16.0	−5.4	1443.0	100.0
1986	99.4	−2.5	−1.4	1461.6	101.4
1987	100.7	−7.5	−2.1	1494.3	101.1
1988	108.3	−8.9	−8.0	1536.8	97.7
1989	127.8	−11.3	−17.0	1509.2	98.6
1990	133.6	−9.3	−18.0	1523.2	100.1
1991	137.0	−10.5	−17.7	1531.3	98.7
1992	137.9	−8.0	−21.5	1591.5	95.6
1993	144.3	17.9	9.7	1836.7	80.5
1994	160.1	18.6	13.1	1908.6	77.0
1995			12.2	2106.4	69.4
1st qtr.1995	41.3	2.9	2.0	2069.8	70.8
2nd qtr.1995	44.2	5.0	5.9	2198.2	66.4
3rd qtr.1995	43.5	7.1	2.6	2096.4	70.0
4th qtr.1995			1.5	2061.0	70.4
January 1995	12.5	0.6	−1.0	1992.4	73.9
February	13.5	0.7	1.1	2017.1	72.5
March	15.2	1.6	1.8	2199.9	66.3
April	12.9	1.6	−1.4	2273.5	64.1
May	15.3	1.6	2.1	2159.8	67.4
June	16.1	1.8	2.4	2161.4	67.5
July	16.3	3.4	1.4	2146.5	68.3
August	11.3	2.0	3.0	2080.2	70.6
September	15.8	1.6	−1.9	2062.6	71.0
October	16.4	2.1	−1.5	2084.7	69.8
November	16.3	2.0	1.0	2064.8	70.3
December 1995			2.0	2033.6	71.1

UNITED KINGDOM

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1985	132.4	−5.7	3.8	0.5890	100.0
1986	108.3	−14.2	−1.3	0.6708	91.1
1987	112.3	−16.4	−7.1	0.7047	89.3
1988	120.9	−32.3	−25.0	0.6643	94.7
1989	137.0	−36.7	−33.5	0.6728	91.9
1990	142.3	−26.3	−26.6	0.7150	89.8
1991	147.7	−14.7	−11.7	0.7002	90.5
1992	145.9	−17.8	−13.4	0.7359	87.1
1993	156.1	−17.2	−14.2	0.7780	79.9
1994	174.0	−14.0	−2.7	0.7736	80.1
1995	186.4	−14.1		0.8190	76.2
1st qtr.1995	46.2	−2.4	−1.1	0.7974	78.3
2nd qtr.1995	45.3	−4.0	−1.6	0.8253	75.7
3rd qtr.1995	46.9	−4.3	−1.9	0.8268	75.7
4th qtr.1995	47.9	−3.3		0.8267	75.0
January 1995	15.3	−0.9	n.a.	0.7858	79.6
February	15.5	−0.9	n.a.	0.7923	78.5
March	15.4	−0.8	n.a.	0.8141	76.9
April	14.8	−1.7	n.a.	0.8261	75.9
May	15.3	−1.1	n.a.	0.8227	75.7
June	15.3	−1.1	n.a.	0.8271	75.5
July	15.2	−1.4	n.a.	0.8359	75.1
August	15.4	−1.6	n.a.	0.8261	75.8
September	16.3	−1.3	n.a.	0.8183	76.2
October	15.5	−2.0	n.a.	0.8224	75.7
November	16.3	−0.7	n.a.	0.8291	74.8
December 1995	16.2	−0.7	n.a.	0.8285	74.5

Due to the introduction of the Single Market, EC countries are currently changing to a new system of compiling trade statistics. All trade figures are seasonally adjusted, except for the Italian series and the German current account. Imports can be derived by subtracting the visible trade balance from exports. Export and import data are calculated on the FOB (free on board) basis, except for German and Italian imports which use the CIF method (including carriage, insurance and freight charges). German data up to and including June 1990, shown in italics, refer to the former West Germany. The nominal effective exchange rates are period averages of Bank of England trade-weighted indices. Data supplied by Datastream and WEFA from national government and central bank sources.

Jakarta gives extra protection to Suharto son's chemical plant

By Manuela Saragosa in Jakarta

The Indonesian government has introduced extra protection for a petrochemical plant partly owned by one of President Suharto's sons in a further policy decision favouring a presidential family member.

A recent decree implements a 20 per cent surcharge on ethylene imports in addition to a 20 per cent surcharge on imported propylene introduced early in February.

Both surcharges benefit a petrochemical plant owned by Mr Bambang Trihatmodjo, President Suharto's youngest son, and prominent businessmen Mr Henry Pribadi and Mr Prayogo Pangestu. The loser appears to be a polyethylene producer, Petrokimia Nusantara Interindo (Peni), partly owned by British Petroleum. Mr Sigit Harjojudanto, President Suharto's eldest son, is also a shareholder in Peni.

Economic protection for the plant has been controversial, emerging as a test case for Indonesia's apparent commitment to free trade. When the plant was officially opened in September last year, government officials said the Chandra Asri plant would not receive tariff protection beyond the existing 5 per cent import tariff on ethylene and propylene.

Suharto: policy decision

But economists have questioned the plant's profitability without economic protection, an issue highlighted by Chandra Asri's inability to finalise a sales contract with Peni, one of its main potential customers, and a large ethylene importer. A 10km pipeline linking Peni's polyethylene plant and Chandra Asri has been built.

An official at Peni, still attempting to finalise a contract with Chandra Asri, noted the company had not received an official communication from the government about the new ethylene surcharge.

"We are confused as we are still trying to negotiate the [Minister of Trade and Industry's] win-win solution with Chandra Asri," he added.

When the surcharge on propylene was introduced in early February, Mr Tunky Ariwibowo, trade and industry minister, called it a "win-win" situation for all participants in Indonesia's petrochemical industry.

This surcharge follows a policy reform package in the car sector. Last week, a company owned by Mr Hutomo Mandala Putra, President Suharto's second son, was granted exemption from Indonesia's tariff scheme for car assembly and manufacturing, at least in the first year of production.

Mr Sanyoto Sastrowardoyo, investment minister, yesterday threatened to revoke the licences of foreign and local investors whose projects did not get started after three years. Some 12 licences had been granted for proposed oil refineries, "but so far, there has been no sign of activity on the projects."

He threatened to revoke the licence awarded to BP for a proposed refinery in Sumatra. The company says the licence lapsed last November after it and its partners decided the venture would not be economic.

FINANCIAL TIMES
COMPANIES & MARKETS
Tuesday March 5 1996

IN BRIEF

Mercedes plans DM11bn spend

Mercedes-Benz AG chairman Helmut Werner said the company expects to invest DM11bn ($7.39bn) in developing new cars in the next three years. The company will invest a further DM3.5bn marks in fixed assets over the same period, with all DM14.5bn being financed from cash flow.

Indosuez profit masks operating weakness
Indosuez, the banking arm of Suez, the French financial and industrial holding company, reported a return to profitability in 1995 amid warnings about a decline in operating income.
Page 19

EVC profits up 90% in first full year
EVC, Europe's largest PVC producer, reported a rollercoaster year in its first full 12 months of independence, with after-tax profits up by 90 per cent despite negligible profits in the second half.
Page 19

Exceptionals help First Pacific to double
First Pacific, the Hong Kong-based marketing, distribution, telecommunications and property group controlled by the Salim group of Indonesia, reported a near doubling of net profits from HK$1.02bn in 1994 to HK$2bn ($258.7m) last year. The results were lifted by exceptional items. Page 20

Korean carmakers face shake-out
In 1995 all of South Korea's big three carmakers reported full-year profits. However, their moment of glory may be brief as over-capacity and slower local sales are beginning to hurt. Page 20

IBM unveils £95m bid for Data Sciences
International Business Machines announced an agreed £95m ($146.3m) bid for Data Sciences days before the computer services company was due to be floated on the stock exchange through a placing with institutional investors. Page 22

Body Shop drops share buyback plan

Body Shop International, the UK "green" cosmetics group, has abandoned plans to become a private company, according to Mr Gordon Roddick, chairman, and Mrs Anita Roddick, chief executive (left). The Roddicks, who founded the company and floated it in 1984 for £4.6m ($7.08m), said "the considerable level of borrowings required" for a share buyback would have hit the Body Shop's future growth. Page 23

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)			Immobanque	590	+ 10
Rises			Legris	235	+ 25
Beiersdorf	1229	+ 16	[illegible]	449	+ 13.4
VEW	495	+ 11	[illegible]	240	+ 11
Falls			**Falls**		
Asko	780	- 15	CGIP	1272	- 23
[illegible]	970	- 20	**TOKYO (Yen)**		
Porsche	780	- 29	**Rises**		
Springer Axel	940	- 25	Kawasaki Heavy	319	+ 8
NEW YORK ($)			Nippon Meat	584	+ 68
Rises			**Falls**		
Avon Prods	85¾	+ 3¼	Green Cross	561	- 24
Biogen	58⅞	+ 4⅞	Ind Bk Japan	2650	- 20
Home Depot	47¼	+ 3	Sumitomo Tst Bk	1360	- 40
Johnson Cont	72⅝	+ 3	[illegible]	1730	- 70
Falls			**HONG KONG (HK$)**		
Cyberoptics	41⅞	- 5⅛	**Rises**		
[illegible]	7⅛	- 5⅝	China Motor	70	+ 1
LONDON (Pence)			Citic Pac	31.5	+ 0.9
Rises			Dah Sing Fin	24.8	+ 1.1
ADT	588	+ 35	[illegible]	42.2	+ 1.3
Go Ahead	318	+ 13	HSBC	128.5	+ 1.5
[illegible]	286	+ 18	**Falls**		
[illegible]	743	+ 21	Swire Pac A	67.25	- 1.0
Falls			**BANGKOK (Baht)**		
[illegible]	379	- 11	**Rises**		
Reliance Sec	215	- 19	Mutual Fund	490	+ 10
TORONTO (C$)			Regional Cont	280	+ 12
Rises			[illegible]	310	+ 10
Maple Leaf	47	+ 2	**Falls**		
Trimark Fin	46⅝	+ 1⅛	Shinawatra Comp	590	- 24
Falls			Siam Cement	1252	- 18
Barrick Gold	40	- 1⅛	**Falls**		
Economic Inv	88⅝	- 2⅝	Loxley Pub	490	- 28
[illegible]	24⅝	- 1⅛			
Rodbridge Net	66¼	- 1⅛			
PARIS (FFr)					
Rises					
Euro RSCG	517	+ 12			

New York & Toronto prices at 12.30.

Pharmacia & Upjohn to shut 40% of sites

By Daniel Green in London

Pharmacia & Upjohn, the pharmaceuticals company, is to shut 40 per cent of its manufacturing sites to make annual savings of $400m by 2000.

The company, formed last November by the merger of Sweden's Pharmacia and Upjohn of the US, is also cutting 20 per cent of its research projects, and plans to sell a Swedish blood products business employing 200.

Pharmacia & Upjohn is the latest large drugs company to cut deeply into its costs base as the sector responds to cost control measures from governments and private sector healthcare buyers.

With previously announced cuts in marketing and research, total savings from the merger are planned to reach almost $800m a year by 2000.

The company has already announced 4,100 job losses from a workforce of 34,000.

The only closure so far disclosed is at Crawley, south of London, which employs 400 in manufacturing, marketing and research. At least 20 more of the company's 56 manufacturing sites will close. They are likely to take place in countries where, since the merger, there are two or more sites with overlapping expertise.

"By the end of 1996, the restructuring and rationalisation will produce a lean company which will put us on track to be a leading company in the industry," said Mr John Zabriskie, president and chief executive.

The company planned to spend more than $3bn over the next three years on research and development.

It has made its corporate headquarters just outside London, but its 6,000 research staff are based on four sites: Kalamazoo, Michigan; Stockholm and Uppsala in Sweden; and Milan, Italy.

It said 27 new products or improvements on existing products are expected to be submitted for regulatory approvals in the next two years.

Progress with cost cutting at Pharmacia & Upjohn is being watched closely by rivals. The merger was the latest in a series of consolidations in the industry, but was one of the few done on a friendly basis.

The share-swap structure of the deal had the extra advantage of not incurring huge debt. The approach is now being touted by analysts as a possible model for further consolidation.

The industry is one of the most fragmented, with about 20 companies having market capitalisation of more than about $10bn each.

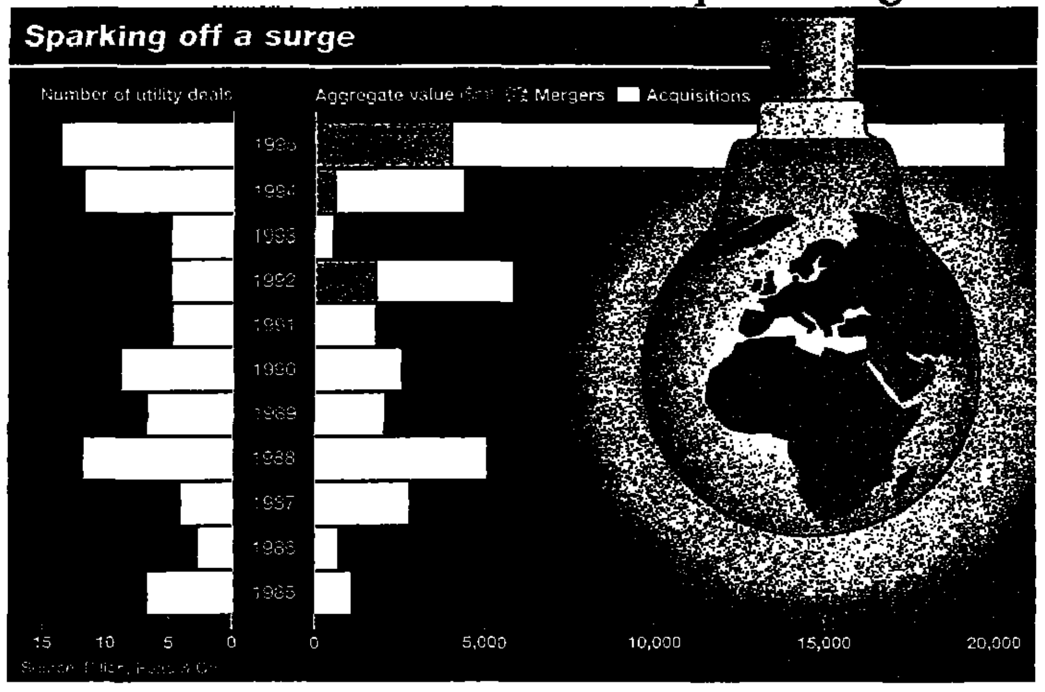
Since governments and other payers for healthcare began to try to control spending in the early 1990s, the sector has developed a taste for cost-cutting, usually after a merger or acquisition.

Pharmacia & Upjohn has already said that the costs of the merger would be higher than expected. In results for 1995 published last month, merger and restructuring costs pushed down net profits from $833m in 1994 to $739m.

Analysts at London stockbroker James Capel have calculated that drugs industry mergers and acquisitions in 1995 alone were worth $34.7bn excluding the merger of Pharmacia and Upjohn.

Cross-border deals are seen as crucial in utilities' quest for growth

Power groups in overseas charge



The surge in cross-border takeovers of electricity utilities in countries such as the UK and Australia is not over. Despite rising prices and growing regulatory concerns, senior utility executives say the industry is only at the start of a big international shake-out.

In Naples, Florida, last week, more than 200 of these executives from 40 countries were asked in *an electronic poll to state their* capital expenditure priorities. Their combined answers put mergers and acquisitions top.

The executives were then asked what they saw as the greatest threat to their business. Nearly two-thirds replied: "Other aggressive utilities."

The two strongest forces driving utilities to become more acquisitive and internationally-minded are the lack of growth prospects in home markets, and the opportunities created by deregulation and privatisation.

"We've been looking at our *region of the US and we see slow* growth and increasing competition," says Mr Tom Boren, president of Southern Electric International, the Atlanta-based company which last year bought Sweb in the UK. "Buying a distributor gave us the chance to make a market leap."

Australian electricity privatisation sparked a wave of acquisitions as well last year, particularly in the state of Victoria. "Utilities have recognised that they're dealing in a global market," says Mr Noel Faulkner, chief operating officer of Powercor, the electricity distributor which was bought by Oregon-based Pacificorp last year. "These companies are looking for growth in customer numbers and sales. I think they also see Australia as a stepping stone into the wider south-east Asian market."

Deregulation in Scandinavian electricity markets is also leading to cross-border business, particularly between Finland and Sweden, according to Mr Stig Goethe, senior vice-president of Vattenfall, Sweden's largest utility. "A lot of people are coming out into the playground," he says.

Mr Jim Miller, senior vice-president of Utilicorp of Kansas City, sees mergers and acquisitions as part of a defensive strategy by utilities to spread business risks. But he believes the successful companies will be those that take a more positive attitude. "The key is to play offence," he says. Utilicorp has made 11 acquisitions in the past 10 years, mainly to achieve the size where economies of scale can pay off.

One area where there is a lack of interest, however, is British Energy, the UK nuclear utility which is about to be privatised. Several executives say acquiring the company, provisionally priced at £2.5bn, would expose them to an unacceptable concentration of risk. One possible contender, Electricité de France, has ruled itself out because the UK has made it clear it would demand reciprocal access to the state-dominated French market.

Otherwise, the growing strength of interest in acquisitions is pushing up prices. As Mr Boren notes, all the UK regional electricity companies (recs) were floated at £2.40 a share. He bought Sweb at £9.65, and the *most recent rec sale went* through at £12.70.

The referral of the two latest UK bids by generators National Power and PowerGen to the Monopolies and Mergers Commission is also a sign of mounting concern that takeovers could lead to unwelcome concentrations of market power. But unless countries limit market share, these concerns are unlikely to place much of a brake on utilities' international expansion.

For one thing, the process of privatisation and deregulation is continuing: large areas of eastern Europe, Asia and Latin America are opening up their utility industries.

For another, executives expect the acquisition trend to become more selective. There is likely to be an increasing emphasis on developing added-value energy services where the profits are higher than in simply generating or selling electricity. These could include energy management or the combination of several utilities into an overall service – "energy solution companies", as one executive describes them. This could lead to a growing split *between electricity generation* and distribution because of the greater growth possibilities at the marketing end.

Mr Steven Rivkin, a Washington-based lawyer specialising in utility issues, predicts the growth of GETs – gas, electricity and telecoms groups which achieve large back office savings by combining metering and billing and are able to offer sophisticated packages of services to customers because of the amount of information they have about them. The natural leaders for such groups, he believes, are electricity companies because they are bigger and more ubiquitous than gas or telecoms utilities.

David Lascelles

Six groups make bids for Czech phones

By Vincent Boland in Prague

Consortia involving France Télécom and TeleDanmark have each made the highest bids for a stake in a mobile telephone licence in the *Czech Republic*, topping offers from four rivals in an international tender.

The French operator and Telesystem International Wireless, its Canadian partner in the MoNet consortium, made an offer valued at Kc8.88bn ($330m) to acquire 49 per cent of the Global System for Mobile (GSM) licence and take operational control of the venture.

The tender is to find an experienced international operator to offer a mobile telephone service in competition with EuroTel, the only other operator in the country.

According to sources close to the tender, TeleDanmark and its Norwegian partner, Telenor, submitted a bid valued at between Kc8.7bn and Kc9bn through their consortium, Czech Communications.

This is followed by Kc7.1bn bid from AnoFon, a consortium that groups the US operator Airtouch International with Cekom, an alliance of domestic energy distribution companies.

A five-member alliance called TMobil, which is led by DeTeMobil, the mobile telephone division of *Deutsche Telekom*, and includes Italy's Stet, two domestic communications groups, Telekomunikační Montáže and PVT, and a Czech financial institution, has offered about Kc5.4bn.

Lower bids were submitted by LevTel, which groups Telecom *Finland and RWE Telliance of* Germany; and Mannesmann Mobilcom, linking the German industrial and telecoms group with a local company, Gity.

The winner of the tender, expected to be announced by March 14, will enter a joint venture with *České Radiokomunikace*, which provides radio and television signals throughout the country. CRK has already been awarded the licence and will have 51 per cent of the venture.

Each bid includes two fixed amounts – $15m for the cost of the licence, and an estimated Kc260m for the 49 per cent stake.

The value of the bids may not be the most important criterion by which the winner is selected. The government has emphasised affordability of the service and speed of its development.

GM poised for expansion of Saturn car arm

By Haig Simonian in Geneva

General Motors, the world's biggest car company, is poised to expand its innovative Saturn small car subsidiary by investing heavily in new capacity at a traditional plant.

Mr Jack Smith, GM's chairman, said in an interview that the board was "close to a decision" on whether to expand Saturn. "There is a major study on where we go."

It is thought that the decision will be in favour of expansion.

Mr Smith indicated that any big new *investment would broaden Saturn's limited* product range, rather than just raising output of its existing models.

Saturn's future has been the subject of intense speculation within the industry as it has approached capacity limits at its Tennessee plant. Although customers have expressed interest in a bigger model, GM has been reluctant to commit itself because of the risk of taking sales from older brands, notably Chevrolet.

Mr Smith implied strongly that any big increase in Saturn's production would be located outside the existing plant, built in the late 1980s for $1.9bn at a greenfield *site in an attempt to* break away from the restrictive labour practices of the group's older factories around Detroit.

Investing elsewhere would come as a heavy blow to the 8,000 GM workers who accepted the company's offer to move to Tennessee to develop "a new kind of car".

Saturn was created outside the traditional heartland of the US motor industry in an attempt to match the cost and quality of Japanese small car imports. Decision making at the plant is shared between management and unions, with traditional distinctions blurred.

The experiment has been highly successful. *Although Saturn's financial* results are not published, the company is believed to have turned its first profit last year, triggering maximum bonus payments of $10,000 per employee.

Demand for Saturn cars is exceeding supply, forcing the company to consider various options to raise production. Output increased to more than 300,000 units last year, and is expected to reach between 305,000 and 310,000 in 1996. Mr Don Hudler, Saturn's president, said he believed capacity could be raised to 340,000 units a year by improving productivity and eliminating bottlenecks.

House that Jack built, Page 15

ICI agrees $390m deal to acquire Bunge paints group

By Jenny Luesby in London

Imperial Chemical Industries, the UK-based chemicals company, yesterday unveiled its first big move into Latin America, with the $390m purchase of the region's leading paint company, Bunge.

Analysts welcomed the move, saying it was "essential" for ICI to establish itself in developing markets if it wanted to remain the world's leading producer of decorative paints in a consolidating market.

With sales of more than $400m a year, Bunge, based in Brazil, has a larger turnover than ICI's *entire European decorative* paints business.

Until now, ICI has done little business in Latin America, with small operations in Argentina, Brazil and Chile, producing sulphuric acid and explosives.

Mr Alan Spall, finance director, *said ICI was determined to* establish itself in the region. "We see this as a good time to be buying assets in Latin America."

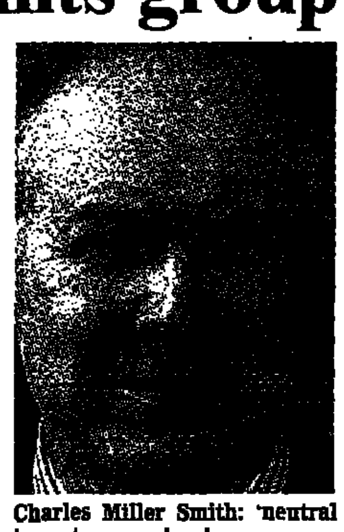
Per capita consumption of decorative paints was 4 litres a year in South America, compared with 19 in Europe and 20 in North America, the company *said*.

There was similar scope for growth in Asia, where the company was also "looking for opportunities", said Mr Spall.

The company's increasing emphasis in Asia was also highlighted yesterday by the appointment of Mr Lee Hon Chiu as a non-executive director of ICI.

Mr Lee is chairman and managing director of Hysan Development, a Hong Kong property company, and deputy chairman of the Garden Hotel, Guangzhou.

ICI has been shifting its sales



Charles Miller Smith: 'neutral impact on earnings'

and production out of the UK for decades and the UK accounted for just 22 per cent of sales in 1994. This is being accelerated following a year of strong growth, which has left the company's balance sheet "under-utilised", it says.

The acquisition of Bunge, wholly owned by the Bunge group, will increase gearing to about 4 per cent, with ICI paying *$295m in cash and the balance* by assumption of debt.

Mr Charles Miller Smith, chief executive, said the impact on ICI's earnings would be neutral in the first year, then positive.

Bunge holds more than a quarter of the decorative paints mar*ket in the Mercosur trading bloc* of Brazil, Argentina, Uruguay and Paraguay, with five factories in the region, 2,800 employees and net assets of $145m in 1994.

In 1994, it made trading profits of $55m. Figures for last year had not yet been audited, said ICI.

T&N cuts last link with asbestos

By Tim Burt

T&N, formerly one of the world's largest asbestos companies, severed its links with the controversial building material yesterday by agreeing to sell its asbestos mines in Africa.

Ending more than 75 years of asbestos production, T&N said it was selling its construction and mining operations in Zimbabwe and Zambia for $60m.

Sir Colin Hope, chairman and chief executive, described the deal as a landmark for the group. "It leaves T&N as a straightforward automotive business and gets rid of its past," he added.

Asbestos – the cause of asbestosis and mesothelioma cancers – has been a damaging legacy for T&N. It has forced the group to pay more than £300m in out-of-court compensation settlements over the past 10 years. T&N's 1995 results tomorrow are expected to include a £50m charge to cover the cost of compensation and litigation.

Sir Colin said: "The asbestos activities were not thought to be desirable even though they were profitable." Last year the asbestos mining business made pre-tax profits of £15.9m.

The buyer is Africa Resources, a company formed by a consortium of Zimbabwean industrialists to continue asbestos production and protect the jobs of the 7,000 workers employed by the mines. Much of the asbestos produced is exported to Japan, where it is still widely used in the construction industry.

The disposal is the latest stage in T&N's attempt to bury its past as an asbestos producer. In December, it overcame the last big property lawsuit involving asbestos when a New York jury rejected a $180m damages claim by Chase Manhattan bank.

Sir Colin said only one big legal hurdle remained – a possible appeal to the class action agreed in the US last year setting fixed compensation payments for asbestosis victims.

T&N puts spark into German pistons group

Tim Burt on a much-needed change in attitudes

Cross-border management

A sign in the lobby of Burscheid's largest employer reads simply "Mit System in die Zukunft" – tackling the future systematically. The management at Goetze, the components manufacturer headquartered in the west German town, adopted the slogan after being acquired three years ago by T&N, the British components and specialist engineering group.

Mr Klaus Junge, managing director, says the new owners brought a much-needed change of attitude to the piston rings manufacturer, which had endured three years of mounting losses before T&N agreed to buy it for DM250m ($170m) in 1993.

"When I came here there were serious problems. Under the old family owners, it had not adapted to new technology and was arrogant with its customers – they were deciding who deserved to be supplied," says Mr Junge. He was recruited from BMW in 1992 as the Goetze family made a last attempt to revive the business.

By that time, however, it was in an advanced state of disrepair.

For T&N, Goetze looked very appetising. It promised to give the company a sizeable share of the German market for piston rings, an important engine component, while also expanding its manufacturing base in north America.

Mr Ian Darke, drafted in from T&N to oversee the acquisition and work alongside the German management, recalls: "They were a formidable competitor in Europe with half of the market. But it had the trappings of being rich and having a bloated overhead structure." There were 10 layers of management and seven grades of secretary. It had expanded into non-core areas such as elastomers and plastics, which came under margin pressure just when fierce supplier competition forced the auto components side to cut prices by up to 35 per cent.

With the agreement of T&N, the Goetze management began to restructure the business. Mr Junge recruited BMW colleague Mr Stefan Prigge to help push through the programme, which saw Goetze cut 1,900 jobs, about 30 per cent of the workforce and close down inefficient production lines.

Mr Prigge says the process was made easier by the recession in Germany, enabling the company to win works council support for the root and branch restructuring.

"You could not have done these things under the old owners. There was a culture of hierarchy handed down by the family that prevented change."

Both German executives, nevertheless, claim the reorganisation was a home-grown initiative rather than one imposed by their British parent. They regarded T&N as the mechanism that released Goetze from its inertia rather than the driver of change.

"We understood what needed to be done and were given the freedom to pursue our own course," says Mr Junge.

Fortunately for Goetze, the restructuring coincided with a revival in the European car industry which lifted volume sales and profits. That enabled T&N – which is tomorrow expected to announce increased underlying profits of £128m (£110.7m) – to take the credit for what outwardly seemed a remarkable turnround.

Costs were cut sharply and Goetze returned to profit in 1994, thanks partly to more aggressive marketing as well as increased demand.

Having completed the restructuring, the German management at Goetze has been able to draw on T&N's financial muscle to invest in new technology and production facilities. This change from fire-fighting to consolidation, however, has exposed differences in Anglo-German management attitudes.

Mr Prigge claims that German engineers are "vision-driven" in their search for new technological applications, while their UK counterparts are motivated primarily by short-term cost savings. It is a sentiment shared by Mr Junge, who says: "In the UK, the engineers are much more financially-orientated and that's destroying a little of the creativity."

He adds, moreover, that the idea of creating shareholder value should not permeate right through a company, especially not in research and development.

The Goetze management also takes issue with T&N's rigorous reporting structure, complaining at the number of working parties and steering groups that analyse its financial performance. "It gets to a stage where you don't have time to do the homework on your own process," says Mr Prigge.

T&N disagrees. Mr Darke says the frequent meetings and detailed financial reporting standards enables the parent company to increase the amount of operational freedom at subsidiary level.

"It is basically a check against the delegated authority given to the operational management."

Despite these differences, T&N wants to encourage the former BMW executives at Goetze to extend their successful model throughout the group's piston and piston rings operations. Mr Junge, therefore, has been promoted to take charge of T&N's global piston products group, while Mr Prigge will take charge of five piston ring plants in Europe.

It shows, according to Mr Darke, that the UK group is willing to adopt the Goetze style on a broader front. "We have worked through the restructuring – gone from contraction to growth and from uncertainty to stability. Now we can take those ideas elsewhere."

This is the third in a four-part series on relationships between overseas subsidiaries and their British parents. The first, examining Center Parcs and Scottish & Newcastle, appeared on February 22. The second, on Holvis and BBA, appeared on February 27.

Siemens in tie-up with Newbridge

By Alan Cane

Siemens, the German electrical and electronics group, and Newbridge Networks, of Canada, are joining forces to tackle the fast-growing market for advanced networking technology.

The two companies announced yesterday a long-term alliance designed to secure a substantial share of the market for broadband (high capacity) communication equipment.

This market, which industry estimates say could be worth $6bn worldwide by 2000, is expected to be based on a sophisticated technology called asynchronous transfer mode (ATM), which allows the simultaneous transmission of voice, data and video images.

The two companies have been collaborating on the development and promotion of networking equipment since 1991, and no financial commitments are involved in the new alliance.

The companies intend to harmonise their broadband product lines through cross-licensing arrangements so that both can offer similar and comprehensive networking equipment. They also plan to work together in development, marketing, sales and customer service. The co-operation will extend to Siemens' partners GPT in the UK and Italtel in Italy. The partners will not compete against each other for customers.

Mr Wolf Rachlitz, executive director of Siemens' networks group, said the two companies would be targeting existing telecoms operators together with new carriers, such as utilities, with little experience of telecoms. The aim would be to provide global, standardised and easy to use products.

Siemens' networks group employs 32,400 people and had revenues of DM10.4bn ($6.8bn) in 1994-95. It is the largest of the company's operating units and accounted for about one sixth of the group's total sales. It manufactures switching and transmission systems, mobile radio systems and cabling.

Newbridge Networks has some 3,000 employees and had sales last year of C$800.5m (US$585m), an improvement of 45 per cent on the year before. It develops, manufactures and supplies the equipment companies need to build and manage digital telecoms networks.

Competition for the new alliance is expected from manufacturers such as AT&T, Northern Telecom of Canada and possibly IBM, which has considerable expertise in using ATM for data transmission.

ATM networks are rare at present. The entire market is probably worth less than $300m, but it is expected to grow rapidly.

Echo Bay warns of fall in output

By Kenneth Gooding, Mining Correspondent

Echo Bay Mines, the sixth-largest North American gold producer, is warning that its gold output will fall for the third successive year in 1996 and that it will record a second year of losses.

However, Mr Richard Kraus, president, predicts that 1996 will be "the trough year". Output should recover from next year, and by 2000 Echo Bay is expecting to produce an annual 1.5m troy ounces of gold – about double last year's output.

Mr Kraus, in London during visits to European investors – whose holdings in Echo Bay increased last year from 23 per cent of the issued capital to 27 per cent – promised there would be future output increases at three of Echo Bay's four mines: Round Mountain, Kettle River and Lupin.

Half the expected output in 2000 would be produced outside North America. Projects with the most potential included Kingking in the Philippines and Chapada in Brazil.

In North America, the outlook for the proposed Alaska-Juneau mine improved after the company recently received permission from the US Environmental Protection Agency to dump crush rock waste into the sea. This would reduce capital costs from about $300m to roughly $200m. The Alaska-Juneau mine should be producing 300,000 ounces a year for Echo Bay in 2000.

Last year, because Echo Bay was mining lower-grade ores, output fell to 754,763 ounces, 8 per cent below the 817,946 ounces in 1994, which was in turn 5 per cent below the 1993 level.

Cash production costs in 2000 would be substantially below last year's $235 an ounce ($214 in 1994) and the expected $245 to $255 this year, said Mr Kraus.

The company reported a loss for 1995 of $50.1m, or 43 cents a share, against net earnings of $8m, or 7 cents, in 1994. This was after taking into the profit and loss account some $69.8m of exploration and development expense, up from $46.6m. This expense was capitalised so as not to "put a burden on the balance sheet", said Mr Kraus.

A loss in 1996 could be expected, in part because Echo Bay intended to spend another $58m this year on exploration and development. Nevertheless, the balance sheet was strong with $186m of cash at the year end, or $33m net of debt.

The expenditure had paid off because last year Echo Bay increased its reserves and resources by 42 per cent to 16.9m ounces.

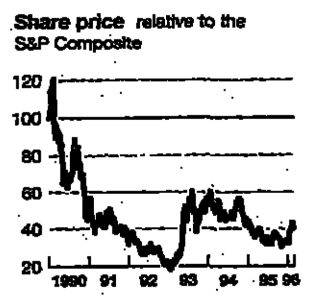
Average realised price for gold last year was up by $1 an ounce to $388. Echo Bay reduced its hedging programme and has hedged 1.117m ounces at an average of $440 an ounce.

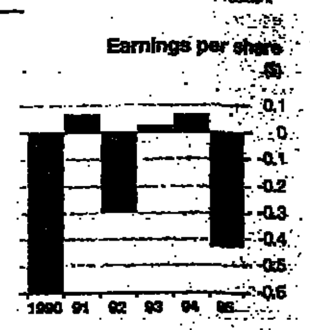
COMPANY PROFILE:

Echo Bay Mines (US)

Market capitalisation	$1.7bn
Main listing	New York
Historic P/E	N/A
Gross yield	0.6%
Earnings per share	-$0.43
Current share price	$13.88

Richard Kraus
President





Source: FT Extel

Trading on the terrors in the market

If he could, Professor Desmond Fitzgerald would ban his traders from reading the Financial Times to stop them forming a view about which way a share or a commodity is likely to move.

As head of a specialist fund management company that seeks to outperform stock and commodity markets by following derivatives-based strategies, he does not care if markets go up or down. He makes money by exploiting fluctuations in either direction.

A professor of finance and author of several books on derivatives, Prof Fitzgerald developed his trading strategies – called volatility trading – at Mitsubishi Finance before setting up on his own in 1993. His company, Equitable House Investments, now manages tens of millions of dollars on behalf of a few US and UK institutions.

Prof Fitzgerald has recently teamed with Crédit Lyonnais Rouse, part of the French bank, to create a fund based on his trading strategies. Mr David Moore, director of derivative fund management at CLR, expects the Luxembourg-listed Volatility Fund to attract $10m when it is launched next month, rising to $50m by the end of the year.

One potential investor is Mr David White, executive vice-president of AIG International Asset Management, which manages $200m in alternative investment strategies and hedge funds. He is attracted to the Volatility Fund because "we can access what hitherto has been the province of investment banks and brokers".

Volatility trading has been limited to a few players because it needs to be backed up by computers which track the volatility embedded in options markets and forecast future volatility. Volatility is a statistical measure of the tendency of the price of a share, commodity or bond to vary over time. It is one of the most important components in pricing options and other derivatives.

Prof Fitzgerald has developed valuation models which determine whether the volatility implied by the price of an option contract is too low or too high.

If his model says it is too low, he will buy the option in the expectation that it will rise in value as the volatility increases. If it is too high, he will sell because its value will fall as the volatility decreases.

Prof Fitzgerald thrives when markets over-react because such situations boost volatility. "We exploit the terrors in the market," he says.

One recent case was the surge in gold prices, which meant gold options became very expensive – a perfect opportunity to sell and buy back when the market calmed down.

Equitable House's performance varies from month to month, depending on the success of Prof Fitzgerald's trading strategies. They range from a negative return of 4 per cent in February 1994, when bond markets suddenly fell, to a positive return of 12 per cent in November 1995.

However, the returns do not contain any directional market risk – which means that, in the event of a big stock market collapse, investors should not suffer to the same extent as they would with a conventional portfolio.

It is for this reason that Prof Fitzgerald believes volatility trading is less risky than taking a view on which direction a market will go. Potential investors such as Mr White agree.

Although Prof Fitzgerald's trading strategies do not contain directional market risk, it is important that such complex derivatives-based trades are monitored at all times.

To this end he has developed internal systems which enable him to shield all positions from price changes in the underlying markets.

Risk reports will be available at any time to investors in the fund. Mr White says this risk control should enable him to make annual returns of about 20 per cent from the fund.

He also hopes that volatility trading will not become too popular. "We want to keep it to ourselves," he says.

Antonia Sharpe

NEWS DIGEST

Acquisitions boost WestLB result

Westdeutsche Landesbank Girozentrale, Germany's third-largest bank, yesterday reported a provisional 2.6 per cent increase in operating profits before risk provisions to DM1.87bn ($1.27m). A big fall in risk provisions meant that operating profit including risk and depreciation write-offs increased 48.5 per cent to DM1.05bn. The bank, which is owned by the state of North-Rhine Westphalia and regional savings institutions, managed only a small increase in interest surplus of 0.9 per cent to DM3.57bn, a reflection of the margin squeeze in the German banking sector.

In line with many other German companies, WestLB expanded more abroad than at home: in London, staff levels rose from 90 to 466. New hirings and higher pensions provisions resulted in a 17.5 per cent rise in staff costs.

The result was also boosted through the first-time consolidation of Banque d'Orsay in France, which WestLB bought early last year to strengthen its asset management business; Deutsche Aussenhandelsbank in Berlin; and Westdeutsche ImmobilienBank, a real estate bank in which WestLB holds a 50 per cent stake. WestLB increased the dividend to its owners from 5 per cent of its core capital to 6 per cent.

Wolfgang Münchau, Frankfurt

Skandia seeks Pohjola merger

Shares in Pohjola, the Finnish insurer, jumped nearly 10 per cent to FM79.7 yesterday after Skandia of Sweden indicated it would like the two companies to merge. Mr Björn Wolrath, chief executive of Skandia, one of the Nordic region's two biggest insurers, told a Swedish business magazine that a merger "would undoubtedly be rational and profitable both for customers and the companies themselves".

The two groups already collaborate, and the co-operation is cemented by cross shareholdings. Skandia has 10.9 per cent of Pohjola's shares, while Pohjola holds 10.5 per cent of Skandia. Both stressed they were not in talks, and said no discussions were planned.

A Helsinki-based analyst said the biggest hurdle for Skandia would be nationalist sentiment. Merita, the big Finnish financial services group, has 27.4 per cent of Pohjola's votes and about 16 per cent of its capital.

Christopher Brown-Humes, Stockholm

Newsprint price rise plan shelved

Fletcher Challenge Canada has become the first North American paper producer to abandon plans for a newsprint price increase on April 1. In another sign of a weak market, Fletcher has also assured customers that prices will not be raised for the rest of this year.

Fletcher and other newsprint mills announced the list price rise of about US$50-$55 a tonne to $875 last autumn when it was widely thought that newsprint would escape the general downturn in paper markets. Newsprint prices have almost doubled since late 1993. However, a combination of paper conservation measures, disappointing advertising and lower circulation has dampened demand in recent months.

Fletcher Challenge Canada's share price slipped 38 cents to C$17.75 in early trading in Toronto yesterday, after last year's peak of C$24.75.

Bernard Simon, Toronto

Enso-Gutzeit ahead strongly

Enso-Gutzeit, the Finnish forestry group, yesterday reported 1995 profit after financials up 65 per cent from FM1.57bn to FM2.6bn ($570m). Operating profit rose 50 per cent to FM3.6bn on sales up from FM17bn to FM21bn. Earnings per share increased 39 per cent from FM7.16 to FM9.97, and the dividend was raised from FM1 to FM2.25. The shares rose 1.5 per cent to FM32.50.

Increasing uncertainty in the markets for forestry products meant group results in 1996 would be weaker than in 1995. Return to normal had proved slower than expected in fine paper orders after the slowdown in late 1995. The market for publication paper remained strong and that for food packaging boards was still in balance, while prices of sawn goods were unsatisfactory despite a slow recovery.

The merger with Veitsiluoto under the new name Enso would come into force on May 1. Combined results of both companies on a pro-forma basis show profit after financial items of FM3.5bn on sales of 28bn. Veitsiluoto achieved a profit after financial items of FM1.14bn, up from FM339m in 1994 on sales of FM7.1bn, up from FM6bn.

AFX News, Helsinki

Eni estimates 33% advance

Eni, the partially privatised Italian energy group, yesterday estimated 1995 net profits at L4,300bn ($2.75m), up 33 per cent, while turnover rose 12 per cent to L56,000bn. The group, which controls the Enichem chemicals arm, Snam, the gas producer, and Agip, the oil company, floated 15 per cent of its capital in Milan, London and New York last November.

The shares closed – before the release of estimated results – up L62 at L5,950, compared with the issue price of L5,250. Eni said operating profit was about L10,100bn, up 36 per cent, due partly to containment of losses at operations being sold. Disposals of unwanted subsidiaries, of which 80 per cent were in the petrochemicals sector, amounted to L2,100bn.

This brings the value of sales since 1992, when Eni began to clean up its balance sheet in preparation for flotation, to L6,300bn. Net debt fell from L23,800bn to L17,800bn. Eni will announce later whether it will pay a dividend. Last year it made a dividend payout to the Treassury of L936bn, its first for 23 years.

John Simkins, Milan

Polygram backs Redford channel

Polygram, the entertainment group, is investing in the Sundance Channel, the cable and satellite channel launched by the actor Mr Robert Redford *(right)*. Polygram is acquiring for an undisclosed sum a 50 per cent equity stake in Sundance Channel, and orchestrating the launch of the channel outside North America. Sundance Channel was developed by Mr Redford to relay independent films, and was launched in the US last week on Showtime Networks, part of Viacom, the US entertainment group. A number of Polygram's films have debuted at the Sundance Festival, including *The Usual Suspects, Backbeat* and *Four Weddings And A Funeral*. Mr Michael Kuhn, chairman of PolyGram Filmed Entertainment, said that the Sundance Channel deal represented an opportunity "to build up asset value from our content interests".

Alice Rawsthorn

Marriott settles with the Pru

A long-running feud between Host Marriott, the US hotels group, and the US fund management arm of Prudential, the UK insurer, was finally resolved with an out-of-court settlement yesterday. The dispute dates back to 1992, when Marriott's plan to break into two companies led to a collapse in the price of bonds the company had issued only months before, attracting the ire of PPM America and other bondholders. PPM and a small number of other bondholders went to court over the issue, arguing that it set a dangerous precedent for the bond markets. They lost at trial in 1994, but have since appealed the decision.

Under the agreement announced yesterday, PPM and the others agreed to drop their appeal and all other claims. Marriott said it had agreed to pay the group $1.25m, which "represented a small fraction of the costs expended by the bondholders in pursuing the case".

Richard Waters, New York

Indosuez recovery masks operating weakness

By Andrew Jack in Paris

Indosuez, the banking arm of Suez, the French financial and industrial holding company, yesterday reported a return to profitability in 1995 despite a substantial decline in operating income.

The group showed net income of FFr107m ($21.2m) for the year, against a loss of FFr1.09bn for 1994, after a significant reduction in provisions to FFr1.35bn from FFr2.89bn.

However, the figure concealed a sharp underlying fall in operating profits, which were cut 24 per cent to FFr2.13bn from FFr2.81bn. Although the group reduced operating costs 5.2 per cent to FFr3.78bn, banking revenues fell 9.6 per cent to FFr10.88bn from FFr12.04bn.

Indosuez said 1995 had proved "a difficult year", explained by the depreciation of the franc against the dollar and the yen, and by disappointing volumes in its market activities. It said there had been a substantial decline in the amount of derivatives, arbitrage business and European transactions on the primary markets.

It added that the "morosity" of numerous stock markets and the "wait and see" attitude of many clients had also helped depress business in its private banking and management divisions.

The bank's strength in Asia – a region growing strongly, in which it said it required few provisions – helped raise volumes and margins, but was offset by low demand and tough competition within Europe.

However, Mr Christian Maurin, the new chairman of the bank, pointed out that the second half of last year had shown an important recovery in operating profits to FFr1.25bn, compared with FFr887m in the first six months. Indosuez took new provisions against French property activities of just FFr87m, compared with FFr1.79bn last time. This reflected its decision to withdraw from such operations.

Last year it transferred FFr7.9bn in property promotion and loans to developers to the parent Suez company. It said the costs of these loans in 1994 had been about FFr2.1bn.

The bank's new non-property provisions included FFr330m against its loans to Eurotunnel, operator of the Channel tunnel rail link which suspended interest payments to its creditor banks last autumn.

The contribution to group profits included FFr287m in net exceptional gains, including a capital gain of FFr505m from its shares in Gartmore, the UK-based fund manager, which it transferred to the Suez parent and which were sold last month to National Westminster Bank.

The bank highlighted the changes finalised at the start of this year which are designed to relaunch it for 1996, including a FFr1bn recapitalisation by Suez, its strategic focus on Europe and Asia, and the creation of a two-tier board structure.

Year of 'sharp contrasts' for EVC

By Jenny Luesby

EVC, Europe's largest producer of PVC, yesterday reported a rollercoaster year in its first full year of independence, with after-tax profits up 90 per cent, despite negligible profits in the second half.

Established as a joint venture by ICI of the UK and Enichem of Italy, the company was floated in Amsterdam in November 1994.

Since then, it had experienced "a year of sharp contrasts", the company said.

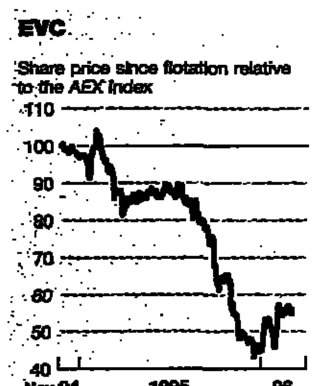
"Strong demand, high operating rates and improving prices in the early part of 1995 were followed by a summer of weakening demand, destocking and increasing imports into western Europe."

Mr Nigel Taylor, finance director, said demand had fallen 20 per cent between the first half and the second. As a result, the company's PVC business had only broken even in the second term.

For the year as a whole, operating profits increased 60 per cent to Fl 176.5m ($106.8m), while after-tax profits rose to Fl 163.9m, from Fl 86.3m in 1994, on a pro-forma basis. Sales were up 3 per cent at Fl 2.53bn.

Aubrey Ashwood

Nigel Taylor (left) and Ettore dell'Isola: recent signs of improvement in the PVC market



Source: FT Extel

PVC, which accounted for sales of Fl 1.47bn, generated operating profits of Fl 152m – up from Fl 107m last year.

The company's other sales of Fl 1.06bn were for ready-mixed plastics and specialist plastic materials. In 1994, EVC made operating profits of just Fl 3.4m in these businesses, but a concerted cost-cutting drive had lifted this to Fl 24.7m last year, Mr Taylor said.

The company also reported recent signs of improvement in the PVC market, with imports abating and destocking coming to an end. "The halt in plastic buying by China, last year, sent a lot of displacement imports into Europe, mostly from the US," said Mr Ettore dell'Isola, chief executive. However, PVC prices had now fallen so low that imports were no longer being attracted.

The plastic is selling for $5.70 a tonne on the European spot market, down from a peak of a $10.80 a tonne in April last year.

The slight recovery in demand had allowed EVC to lift its prices on March 1. Meanwhile, its raw material prices had fallen sharply, and the company was hopeful of some demand growth this year.

The group had also reduced its working capital last year, cutting stocks by the equivalent of 10 days' sales, to an all-time low of between 30 and 35 days. Debtors had also been cut by the equivalent of 10 days' sales.

These reductions resulted in net cash flows, before financing, of Fl 216.8m, leading to a positive net cash balance, at year-end, of Fl 131.8m.

The company reduced fixed costs and overheads to Fl 620m last year, compared with more than Fl 700m the previous year, although this had been helped by the devaluation of the Italian lira and the pound.

Earnings per share rose by 90 per cent to Fl 11.20, and the company proposed a dividend of Fl 3.00.

Brewers vying for Czech stake may get Budvar bonus

By Vincent Boland in Prague

Three international brewing groups have made initial bids for a stake in a regional Czech brewery in a contest that could affect the future of Budvar, the Czech brewery that makes the original Budweiser beer.

Bass of the UK, Anheuser-Busch of the US and Denmark's Carlsberg are vying for a minority stake in Jihočeské Pivovary (South Bohemian Breweries), a privatised brewery controlled by an alliance of domestic investment funds.

At the same time, a tentative proposal to merge SBB with Budejovicky Budvar, which is 100 per cent state-owned, is being discussed by the investment funds and Budvar's management.

If both developments proceed, the winner of the SBB stake would become a shareholder in the larger group, with Budvar as its centrepiece. It would also end speculation over the future of Budvar, considered the jewel in the crown of Czech brewing.

The presence of Anheuser-Busch on the list of potential partners for SBB poses a dilemma for the government. The US brewer has been wooing Budvar for several years in an attempt to end a long-running dispute over rights to the Budweiser brand name in Europe. If SBB selected Anheuser-Busch, any merger with Budvar would be abandoned, the sources said.

Any decision on a merger is not expected until SBB shareholders have decided on a strategic partner. Bass, Anheuser-Busch and Carlsberg have lodged indicative, non-binding offers with SBB's financial adviser, HSBC Investment Bank, subject to due diligence.

SBB management and shareholders are expected to discuss progress in their search for a partner at a meeting later this month. Sources close to SBB said yesterday a decision would be made at that time on whether or not to proceed. If a partner is chosen, it would likely acquire new shares in SBB, with the proceeds used to modernise and expand the brewery's production.

A merger of Budvar and SBB would make commercial sense, say industry experts. The two groups share a site in the southern town of Ceske Budejovice and were part of the same company during the communist era. They were demerged when the government privatised SBB.

A stake in the merged group would also be lucrative for the new partner. Although Budvar produces only about 700,000hl of beer annually, it has a strong export market and is a premium beer. SBB's three main brands are mid-market beers with strong regional sales in southern Bohemia.

Mittelstand makes an impression on the news stand

Cordelia Becker on German and Swiss publishing success in the Czech Republic

When Mr Vaclav Klaus, prime minister of the Czech Republic, decided to publish his recent book in German, he chose not a Czech publisher, nor even one of the big German groups, but rather Passauer Neue Presse, a medium-sized company. The reason: it has become one of the most powerful publishers of regional newspapers in the Czech Republic.

PNP is one of a number of German and Swiss publishers that have rushed into the Czech Republic since 1991 – the date of the first wave of coupon privatisations – snapping up newspapers. Now, taking advantage of their strong currencies, they are turning their attention to the magazine market.

The scale of the foreign publishers' invasion has been startling: more than half of the country's newspapers now have non-Czech owners. They have also been investing heavily in printing plants.

PNP owns 37 daily regional newspapers and has no competitor in Bohemia. The group's sales have increased from DM88m in 1988 to DM850m ($576m) last year, driven mostly by its Czech expansion.

In contrast, the Koblenz-based Mittelrhein-Verlag has targeted the Moravian market, where it publishes the second biggest tabloid, Expres. The medium-sized publisher Rheinische Post prints more newspapers in Prague than in its home town of Düsseldorf. It owns the republic's biggest daily newspaper, Mladá Fronta Dnes, which has a circulation of 400,000.

Although the advertising market is worth DM18bn, according to Prognos, a Swiss market research company, the sector remains overcrowded. There are more than 50 newspapers aimed at a population of only 10m, and the market is facing a shake-out caused by rising costs and slowing revenue growth. Newspaper sales growth is slowing. "Now that they trust the press, Czechs do not buy five newspapers any more," says Mr Bodo Meisner, general manager international markets at Ringier, the Swiss publishing house which sells the top-selling tabloid Blesk and the daily Lidové Noviny. On the cost side, newsprint prices have soared in the past 18 months. The better capitalised German and Swiss publishers have been better able to cope.

Mr Richard Ziegmann, managing director of Mittelrhein-Verlag, warns: "Only four of the 10 biggest newspapers can survive." He believes his own company will be among the survivors, as well as Ringier.

"Speed, determination and consistency" were the keys to success, says Mr Roland Rager, PNP's chief executive. By being first, they left the Scandinavian and Dutch late-comers few opportunities.

Now the newspaper war is won, the Germans and Swiss are moving on to magazines. Big groups such as Ringier, Marquard (publisher of Popcorn), and the large German publishing companies Bauer (Tina) and Burda (Lisa) are present. They either bought the best local titles, or started publishing versions of their domestic titles in Czech.

PNP recently entered the market with a TV guide, which sells almost as well as women's magazines produced by Burda and Bauer. The western groups have focused on the Czech Republic's growing consumer awareness. For the first time, Czechs are being offered consumer advice magazines. The only title in the country published by Springer, the German group, is a consumer motor magazine called Auto Tip.

Czech publishers are being squeezed out. Mr Miroslav Pavel, general manager of Ekonomia, one of the few local profit-making publishers, which produces special interest titles, sees international expansion as the only avenue open. He wants to invest soon in Ukraine. Otherwise, he is afraid, the Germans and Swiss might, once again, be first to the market.

One-off gains help First Pacific to double profit

By Louise Lucas in Hong Kong

First Pacific, the Hong Kong-based marketing, distribution, telecommunications and property group controlled by the Salim group of Indonesia, yesterday reported a near doubling of net profits for last calendar year, from HK$1.02bn in 1994 to HK$2bn ($258.7m) last year.

The results were boosted largely by exceptional items, essentially the sale and dilution of a number of shareholdings. Stripping out exceptional gains of HK$815.1m, profits increased 39 per cent from the comparable figure of HK$854.1m in 1994, to HK$1.19bn last year.

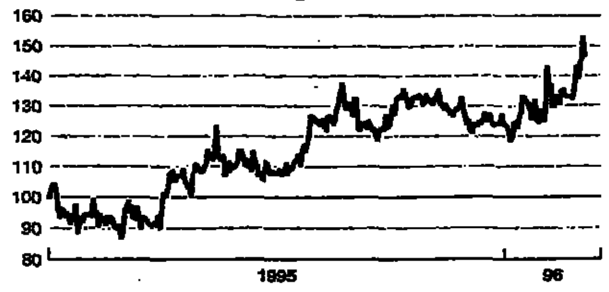
Exceptional gains came from the deemed dilution of the company's equity stake in Hagemeyer, the Dutch trading company, on its acquisition of competitor Borsumij Wehry. There was also the sale of an 85 per cent stake in United Savings Bank of the US, and the dilution of First Pacific's stake in Smart Communications, the Philippines cellular phone company, following the issuance of new securities by Smart to Nippon Telegraph and Telephone.

There was also a gain from the sale of certain non-core assets at the Philippines distribution arm, Metro Pacific.

The results came in above market forecasts and prompted Mr Manuel V. Pangilinan, managing director, to refer to 1995 as "a landmark year: our recurrent earnings and exceptional gains were both at their historic highs and our balance sheet has been greatly strengthened".

First Pacific

Share price relative to the Hang Seng Index



Source: FT Extel

The four main arms of First Pacific's interests – banking, marketing, distribution and telecommunications – all put in robust performances. Rapid growth in subscribers at Pacific Link, the Hong Kong based mobile telephone company which pioneered the concept of lower handset prices pitched at the mass market, helped the 65 per cent owned subsidiary increase profitability by 95 per cent. It now has more than 200,000 subscribers on its two cellular networks.

Smart Communications of the Philippines moved into the black for the first time and notched up some 113,000 subscribers by the year-end. IndoLink, the Indonesian paging operator, recorded a modest loss as it continued to build out its infrastructure and subscriber base.

Hong Kong's sluggish property market was blamed for lower profits at First Pacific Davies, the property arm which is expected to aim for a separate listing in the future.

First Pacific is an unusual listing on the Hong Kong stock market, deriving the bulk of its profits from Asia and Europe. Its exposure to the Philippines, an economy which has so far failed to keep pace with that of the other Asian tigers, is growing: the Metro Pacific-led consortium is involved in developing the former military site of Fort Bonifacio.

Earnings per share, on a fully-diluted basis and excluding exceptional items, rose 31 per cent from 42.12 cents to 55.05 cents, and directors are recommending a final dividend of 10 cents, making a total payout of 17.50 cents for the full year, up 25 per cent on 1994's 14 cents.

ASIA-PACIFIC NEWS DIGEST

Thai mobile phone companies buoyant

The parent companies of Thailand's two mobile telephone operators, Shinawatra Computer and Communications and United Communications, yesterday reported healthy profit growth in 1995 yesterday, reflecting growing demand in the sector.

Consolidated net profit at Shinawatra, parent of Advance Info Services, rose 19 per cent in 1995 to Bt3.3bn ($131m). A large portion of this profit came from Advance, which yesterday also announced profit growth in 1995 of 94 per cent to Bt3bn. Shinawatra owns about 57 per cent of Advanced.

Meanwhile, United Communication reported a net profit increase of 40 per cent in 1995 to Bt2.8bn. United is the parent company of mobile operator Total Access Communications, which is listed in Singapore. Analysts said TAC's profit growth was the main reason for United's good showing.

Ted Bardacke, Bangkok

Nan Ya Plastics ahead

Nan Ya Plastics, part of the Formosa Plastics group, posted strong earnings growth in 1995, mainly because of cyclically high polyester prices. Pre-tax profits rose from T$7.88bn in 1994 to T$8.85bn (US$321.81m), on sales up from T$77.4bn to T$91.5bn last year.

The company did not provide a breakdown, but analysts said growth was derived mainly from the polyester division. Polyester prices began to rise in late 1994 and continued to climb in the first half before reversing in the second half.

Analysts said the price outlook for polyester was poor because of global overcapacity, and PVC sales were slowing as a result of a slump in the domestic construction industry. But Nan Ya's diversification, particularly into electronics, should allow continued steady earnings growth this year, albeit probably at a more moderate pace than in 1995.

Laura Tyson, Taipei

Lend Lease up 5% halfway

Lend Lease, the Australian property and financial services group, saw after-tax profit rise to A$140.1m (US$106.7m) in the six months to end-December, a 5 per cent improvement on the year-ago figure of A$133.4m.

The financial services division contributed A$95.2m to operating profits, up from A$80.5m previously. Retail funds under management grew 8 per cent to A$7.4bn, with the company retaining its position as the second largest retail funds manager in Australia. Profits from the property services division, however, slipped from A$48.9m a year ago to A$36.3m, a result which the company blamed on "tightening construction margins on Australian projects".

Nikki Tait, Sydney

Asahi sells down Foster's stake

Asahi Breweries, the Japanese brewing group, has sold down part of its stake in Melbourne-based Foster's Brewing. However, it said it would remain "a long-term Foster's shareholder for the residual shares held".

The Japanese group sold 55.2m Foster's shares, or about 2.8 per cent of the Australian company's equity, at A$2.24 each, raising about A$124m. This leaves Asahi holding 13.8 per cent of Foster's. The shares were placed with Australian and international institutions by SBC Warburg.

Nikki Tait

Marubeni buys into US energy

Marubeni, one of Japan's top five general trading companies, is to expand its Asian power distribution interests with the Y27bn ($256m) acquisition of a 30 per cent stake in New York based Sithe Energies, fourth largest electricity wholesaler in the US.

The Japanese group aims to use its stake in Sithe, which operates power stations in the US, Australia and China, to start electricity distribution in south-east Asia and improve its chances of winning other energy contracts, for plant construction and the supply of liquid natural gas. Marubeni will send two executives to Sithe, which last year made a pre-tax profit of $80m on sales of $700m.

The group, traditionally strong in trading in pulp, paper and machinery manufacturing, sees Asian power distribution as a lucrative opportunity for investment expansion. Asian electricity demand is expected to triple to 300m kilowatts annually by 2010, of which Marubeni believes that private sector companies like Sithe will supply 40 per cent. Marubeni said it was near to agreement on the purchase of the 11 per cent of Sithe's shares held by the US group's management; it would also make an offer to buy the remaining shares on the open market.

William Dawkins, Tokyo

Israeli group in talks on foreign alliance

By Julian Ozanne in Tel Aviv

Africa Israel, a large Israeli conglomerate covering property, insurance and tourism, said yesterday it was involved in intensive negotiations with US, European and Japanese investors to forge a strategic partnership.

Mr Shlomo Grofman, president and chief executive, said he had made presentations to a number of investors in the past few weeks seeking to purchase shares in the growing company from Bank Leumi, Israel's second largest commercial bank.

Under new banking laws, Israel's commercial banks must reduce their stakes in non-financial companies to a maximum of 25 per cent by the end of 1996. Bank Leumi currently holds 50 per cent of Africa Israel. Mr Grofman is involved in presentations to investors, but negotiations are being conducted by Bank Leumi executives.

Mr Grofman, who has led Africa Israel to success since becoming managing director in 1978, refused to confirm widespread speculation that Mr Larry Tisch, the former owner of CBS network in the US, was a leading contender to buy into Africa Israel. But he said Bank Leumi and Africa Israel had decided that a dilution of Leumi's ownership should be made by finding a strategic partner rather than by trying to sell large blocks of shares on the Tel Aviv stock exchange, which is currently suffering from a shortage of local liquidity.

"We realise that the time is ticking and that the faster we do the deal, the better will be the price and we are very busy with this at the moment," he said. However, he added that Africa Israel wanted to find a strategic partner that shared the same vision of the company's future, had some involvement in core sectors of Africa Israel's business and wanted to invest for the long term.

Mr Grofman said the company hoped the formation of a strategic partnership with a single investor would be accompanied by the injection of new capital into Africa Israel to finance expansion. Global public offerings, postponed in *late 1994, would go* ahead following the strategic partnership.

Africa Israel has experienced dramatic growth in revenues in the past five years, largely as a result of its diversification into tourism and hotels, and acquisitions in trade and industry. Group revenues grew from Shk238m in 1991 to Shk567m ($182.8m) in 1994. Results for the first nine months of 1995 showed revenues rising 19 per cent over the same period of 1994, from Shk421.8m to Shk502.5m. Net income rose 24 per cent to Shk74.5m from Shk60m in the first nine months of 1994. Analysts' estimates for the full-year 1995 predict revenues of Shk660m and net income of Shk103m.

Mr Grofman said Africa Israel needed to raise at least $200m to finance expansion and diversification plans to 2000. The company, which entered the tourism and hotel sector in 1993 after reaching a franchise and management agreement with Holiday Inn, plans to expand its hotel rooms from 1,700 in 1995 to almost 4,000 by 2000.

The company also plans *further acquisitions in the industry* and trade sector, and is hoping to exploit growing opportunities in Israeli infrastructure projects and regional infrastructure projects emerging from the Middle east peace process.

Korean carmakers face shake-out

Over-capacity and slower local sales are hurting, writes John Burton

In 1995, for the first time in half a decade, all of South Korea's big three carmakers reported full-year profits. *However, their moment of glory may be brief.*

Analysts warn that sluggish domestic sales, a likely slowdown in exports, and the threat of excess production capacity could soon lead to renewed losses for the Korean car industry.

Rising investment costs are adding to the problems as the main carmakers – Hyundai, Kia and Daewoo – pursue plans to expand production from 2.6m units in 1995 to at least 5m vehicles by 2000. In addition, Samsung and Ssangyong plan to enter the passenger car market by 1998, which will boost production capacity by another 1m units.

The rapid increase in production capacity reflects an ambitious government-supported programme to transform the Korean car industry, which is already the world's sixth biggest, into the fourth largest by the end of decade.

"Korean car companies are aggressively expanding when there is already an industry production glut globally. Sooner or later, they will feel the cold draft of market forces, which will likely result in industry consolidation through mergers," said one UK car industry representative.

The first sign of weakness became apparent last year when domestic car sales only increased by 0.3 per cent to 1.56m (including commercial vehicles), according to the Korea Automobile Manufacturers' Association. This was a significant drop from the 10 per cent annual growth in sales during the first half of the 1990s.

Carmakers narrowly avoided the first fall in domestic sales in 15 years by offering interest-free instalment financing in December to boost purchases.

The recovery in industry profitability was mainly the result of a 47 per cent jump in exports, to 1.08m vehicles, as Kia and Daewoo, which both reported losses in 1994, greatly increased sales in overseas markets. Earnings for Hyundai, the biggest Korean carmaker, grew because of its dominant position in both domestic and export markets.

The slump in domestic sales is of particular concern to the carmakers because they traditionally rely on higher profit margins in the well-protected Korean market for most of their earnings. Exports, which account for 41 per cent of total sales, are much less profitable.

What is puzzling industry observers is that the sudden slowdown in domestic car sales last year occurred in spite of buoyant economic growth of more than 9 per cent. "If we had that type of economic growth in the US, we wouldn't be able to keep up with demand," said one executive with Ford Motor.

A combination of factors are hindering sales growth. The wave of first-time buyers that fuelled demand during the last decade has subsided, with 80 per cent of households now owning a car. The market is becoming more dependent on slower replacement demand. Heavy consumer taxes and congested traffic are also harming sales.

Analysts predict that sales will recover next year, but at far lower growth rates than in previous years, with estimates ranging from 3 to 5 per cent annual growth for the rest of the decade. The tough market conditions at home could lead to a renewed bout of price-cutting as the rival carmakers try to increase market share at the expense of profits.

Some analysts predict that Daewoo, which suffered a 17 per cent drop in domestic sales in 1995, may offer generous financing incentives when its introduces a new range of models this year and next, which will force its competitors to follow suit.

One positive development is that Korean car buyers are abandoning low-cost subcompacts in favour of bigger saloons that have better profit margins. But this car segment is now becoming the most competitive in the industry.

Samsung and Ssangyong are concentrating their attention on challenging their established rivals in the manufacture of cars with engines of 2 litres or bigger.

In addition, large cars will become the main focus of foreign competitors as they increase sales above last year's 0.5 per cent market share, following the recent relaxation of trade barriers and reduced taxes on luxury models.

Exports will relieve some of the pressure resulting from the saturated home market. Korean carmakers plan to sell at least half their output abroad in the next few years, which has raised concerns among US and European producers.

But export growth is expected to slow significantly as the Korean currency appreciates with the relaxation of strict foreign exchange controls.

Korean carmakers are no longer benefiting from the high yen that depressed sales of their Japanese rivals last year. The recent drop in the yen's value is expected to result in much slower export growth of 10 to 15 per cent for Korean cars this year.

Korean manufacturers are moving production offshore to emerging markets, including eastern Europe, India and south-east Asia, to improve sales possibilities and reduce their use of high-cost Korean labour. Although developing countries have high growth potential, they are in danger of becoming quickly overcrowded as other foreign carmakers join the Koreans in establishing facilities there.

The threat remains that both overseas and domestic markets will not be able to support the total production that Korean carmakers are planning, with some analysts estimating that they will have excess capacity of 1m to 1.5m vehicles by 2000.

"With the exception of Hyundai, the future isn't bright for the Korean car industry," said Mr Lee Keun-mo, head of research at ING Barings Securities in Seoul. Mr Lee predicts an extensive restructuring, with Samsung taking over the weaker Kia, Ssangyong dropping passenger car production, and Daewoo largely abandoning the Korean market for the developing world.

HYUNDAI

1995 net earnings: Won156.7bn (Won136bn in 1994)
Sales: Won10,300bn (14% increase)
Domestic market share: 52%
Domestic car sales growth: 3%
Export growth: 26%

KIA

1995 net earnings: Won11.6bn (loss of Won69.5bn in 1994)
Sales: Won5,688bn (20% increase)
Domestic market share: 26%
Domestic sales growth: 8%
Export growth: 26%

DAEWOO

1995 net earnings: Won10bn (loss of Won9bn in 1994)
Sales: Won3,600bn (33% increase)
Domestic market share: 18%
Domestic sales growth: -18%
Export growth: 158%

Indonesian producers braced for new arrival

By Manuela Saragosa in Jakarta

Indonesian carmakers expect sales this year to fall below last year's level as domestic buyers hold back in anticipation of the Timor model, due to enter the market late this year.

The Timor, which will be manufactured by a company owned by President Suharto's youngest son in a technical assistance arrangement with South Korea's Kia Motors, was granted exemption by the government from import tariffs, surcharges and sales tax for at least the first year of production.

The move allows the president's son to undercut all other Indonesian car manufacturers. Shares in Astra International, Indonesia's largest carmaker, have fallen 23 per cent since the tax breaks for the Timor were announced last week.

Mr Herman Latief, chairman of Gaikindo, the Indonesian Automobile Manufacturers' Association, said car sales this year would fall below last year's figure of 380,000 units. Some 16,000 Timors are expected on the Indonesian market in September.

Sales of cars priced in the Rp25m to Rp70m ($11,000 to $30,000) price range could be hardest hit. This range accounted for about 200,000 of cars sold on the Indonesian market last year.

Despite the negative impact Timor's tax breaks have on its competitors, Mr Latief signalled that the Association would not issue an official complaint to the government.

He noted that the intention to manufacture the Timor, which is being touted as an all-Indonesian car, with more than 60 per cent local component content by the end of the third year of production is "no light task".

Krung Thai Bank steps up plans for Asian expansion

By Ted Bardacke in Bangkok

Krung Thai Bank, Thailand's second largest commercial bank, which *is majority-owned* by the government, announced a net profit of Bt10.2bn ($404.4m) for 1995, a 25 per cent increase on the previous year.

Full financial figures were not released, but Mr Sirin Nimmanahaeminda, Krung Thai's president, revealed that total assets had increased 15 per cent to Bt642bn. Profits continued to grow because asset quality continued to improve and interest margins remained healthy, he said.

Commenting on expected performance in 1996, Mr Sirin said he had just returned from Kunming, the capital of Yunnan province in China, where he was told that Krung Thai's representative office there would receive permission to upgrade to a full branch "within a couple of weeks".

Krung Thai will be the first foreign bank *to receive such a* licence in Kunming, which is rapidly developing broad commercial links with Thai businesses. Mr Sirin said the Kunming branch would be instantly profitable because "five or six big clients, mostly Thai, have already lined up to borrow", and the branch would immediately begin collecting fees on foreign exchange transactions carried out for the People's Bank of China.

Mr Sirin also said Krung Thai had already received a branch licence for Bombay, and would open there soon after the Indian elections in April. Several of Krung Thai's main government customers, including the Electricity Generating Authority of Thailand, use a wide variety of Indian *products, especially on projects* which are funded by the Asian Development Bank and therefore are subject to an open bidding process.

Krung Thai also hopes that its presence in India will help reduce its information technology costs by allowing it to link up with Indian software companies to provide customised services.

As part of its growing regional presence, which includes branches in New York, Los Angeles, Singapore and Phnom Penh, and representative offices in Rangoon and Vientiane, the bank is considering opening branches in Manila and Canton, along with a representative office in Shanghai.

"With so much competition in Thailand we have to open up and become a regional bank," Mr Sirin said. "It's not OK to just sit back say we're number two [in Thailand]."

Krung Thai Bank's 1995 results compare favourably with other large Thai banks, whose profit growth in 1995 has been in the 15 to 20 per cent range. They also outpaced results reported yesterday by smaller banks.

Siam City Bank announced profit growth of 10.5 per cent in 1995 to Bt3.16bn, while Bangkok Bank of Commerce announced profit growth of 64 per cent to Bt860m, but a 3.6 per cent drop in earnings per share.

COMPANY NEWS: UK

IBM swoops on Data Sciences

By Paul Taylor

International Business Machines announced an agreed £95m ($146.3m) bid yesterday for Data Sciences, just days before the computer services company was due to be floated on the stock exchange through a placing with institutional investors.

IBM's pre-emptive strike, its second largest acquisition in Europe, underlines the determination of the US computer group to expand its presence in the systems integration and outsourcing sectors, particularly in the UK market where IBM already has service revenues of £467m.

The deal is also likely to reinforce investor confidence in the UK computer services sector first demonstrated in the flotation of Computer Management Group in December.

Since then Data Sciences, FI Group and Triad have all announced flotation plans.

Data Sciences' placing, which has now been cancelled, was expected to value the Farnborough-based group at about £80m.

Data Sciences employs about 1,700 people mostly in the UK and the Netherlands. It was a £67m management buy-out from Thorn EMI, the rental and music company, in July 1991 backed by CinVen, a venture capital company, but quickly ran into trouble meeting its buy-out targets before Mr Andy Roberts took over as chief executive in 1993 and installed a new management team.

Since then the restructured and refocused company has grown strongly, reporting an 80 per cent increase in operating profits to £6.1m in the year to September 30 on turnover up 18 per cent to £103.7m.

Mr Roberts yesterday described IBM's bid, which represents 28.4 times historic earnings as "pretty compelling for CinVen and other shareholders."

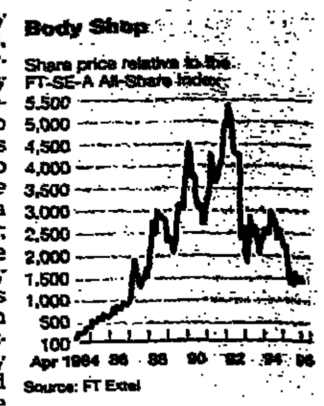
He said the bid was "a great offer" which would provide "accelerated opportunities for growth, particularly in Data Sciences' main markets of finance, commercial, defence, telecommunications, government and aerospace.

IBM UK managers emphasised that the acquisition was necessary to help IBM meet its target of 30 per cent growth per year.

Mr Hans-Ulrich Maerki, in charge of IBM's services operations in Europe said the deal was "a unique opportunity" and "a perfect fit with our growth strategy, not only in the UK but also the Netherlands."

LEX COMMENT

Body Shop



For all their dislike of City short-termism, the Roddicks, founders of Body Shop International, have sensibly decided that grumpy shareholders are preferable to jumpy bankers. Yesterday's decision to abandon plans to take the company private again is not the result of a failure to secure financing; but such a deal would have left the private company with interest cover of less than two times and an unusually large slab of "mezzanine" financing. Not only would a privately owned Body Shop have been unable to pursue its strategy of expansion in Asia; given its weaker balance sheet, it would also have been extremely vulnerable to any downturn in earnings. If they can overcome their short-termist inclinations, shareholders should be content enough with losing the opportunity to cash in. At a discount of around 10 per cent to the market and around 30 per cent to the sector, Body Shop shares are looking cheap. Furthermore, there are signs that the Roddicks are coming around to the concept of shareholder value. Yesterday's statement hints at an acceleration of dividend growth or a share buy-back – which the company can easily afford, given its strong balance sheet.

There are still risks for shareholders, though. The company's greatest challenge is its US business, where *like-for-like* sales are falling in a difficult retailing environment. And its only real prospect for driving earnings growth forward is the push into Asia. Given this, juicier dividends for long-suffering investors are the least the management can do.

41% underlying growth for BBA

By Tim Burt

BBA Group, the transportation services and industrial manufacturing company, yesterday underlined its shift from restructuring to expansion by announcing a 41 per cent increase in underlying profits.

The company, which has cut more than 2,000 jobs and sold businesses with combined sales of about £400m in the past three years, saw pre-exceptional profits jump from £84.3m to £118.5m ($182.5m) in 1995.

Although turnover fell 14 per cent to £1.18bn, Mr Roberto Quarta, chief executive, said sales from continuing operations of £926.4m (£880.2m) showed the group was moving into a growth phase.

"People accused us of pushing up margins at the expense of growing the business. We've proved them wrong." Mr Quarta, who has aggressively overhauled BBA since his arrival from BTR three years ago, said the restructuring had been largely completed.

Last year, that involved the sale of the Automotive Products subsidiary for £181m; the closure of the Page Avjet aircraft interiors business; and the disposal of several other non-core companies.

Losses on the sale and termination of such businesses contributed to exceptional items of £51.7m (£20.4m), which in turn held pre-tax profits to £66.8m, up from £63.9m.

Mr Quarta said it was a pleasing result, especially given that margins on continuing operations rose from 9.1 per cent to 11.7 per cent. Return on net assets, moreover, rose from 21 per cent to 27 per cent. "We are now going for top line growth while seeking further productivity improvements," he added.

Fergus Wilkie

Roberto Quarta: restructuring had been largely completed

BBA is expected to seek additional cost savings by integrating two German textile plants and improving capacity utilisation at Fiberweb, the non-woven fabrics arm of Holvis, the Swiss industrial group acquired for £239m last year.

Maiden contributions from Fiberweb helped lift pre-exceptional profits in the industrial division from £66.1m to £69.6m.

The transportation division saw underlying operating profits rise from £37.7m to £58.7m.

European and Asian sales boost at S&N

By Jenny Luesby

A sales push in Europe and Asia saw Smith & Nephew, the medical equipment company, lift pre-tax profits by 5 per cent last year, to £180.4m ($277.8m) before exceptionals, in what it described yesterday as a "difficult" market.

Mr John Robinson, chief executive, said the market had become "much tougher" during 1995, with continuing pressures on healthcare budgets cutting selling prices by 0.5 per cent worldwide. This had been most severe in the US, where there was likely to be little relief for two to three years.

Underlying sales growth of 8 per cent lifted turnover to £1,026m (£965m), but margins remained steady, at 18 per cent.

The strongest sales growth, of 25 per cent, came in Asia including Japan, as the company moved into India and China, and assumed responsibility for its own distribution in Japan.

In the UK, sales rose by 12 per cent, with the set-up of a single salesforce for the company's healthcare products generating increased orders from National Health Service budget holders.

In continental Europe, the acquisition of several distribution companies lifted sales by 8 per cent, with most of the growth coming in the second half.

In the wound management, and casting and support businesses, sales rose by 13 per cent and 10 per cent, principally at the high-tech end of the product range. But the trauma, endoscopy and orthopaedic implants businesses were all held back by the flat US market, achieving growth of between 4 and 6 per cent.

Consumer healthcare grew by 10 per cent, helped by the relaunch of Lil-lets tampons, increased marketing of Nivea and strong growth of the Simple range of cosmetics.

Interest arbitrage brought an interest charge of £4.6m, compared with a gain last year of £700,000.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
ADT ☆	Yr to Dec 31	1,525	(1,376)	78.1♠	(146.3)	0.31	(0.76)	nil	-	nil	nil	nil
Albemarle & Bond Φ	6 mths to Dec 31	1.97	(1.63)	0.38	(0.38)	0.71	(0.71)	-	-	-	-	-
Avonmore Foods ♣	Yr to Dec 30	1,225	(1,191)	32.1	(21.7♠)	15.46	(10.03)	2.35	May 15	2.1	4.1	3.75
BBA	Yr to Dec 31	1,183	(1,380)	66.8♠	(63.9♠)	2.4	(6.4)	4.2	May 24	3.25	6	4.75
British Polythene	Yr to Dec 31	351.8	(268.8)	25.1	(19.2)	47.35†	(37.6)	11	May 31	9.25	16.5	13.75
Cementone	Yr to Dec 31	18.3	(17.4)	0.556	(0.528)	2.51	(2.28)	1	Apr 16	1	1.4	1.4
Close Brothers	6 mths to Jan 31	-	(-)	21.7	(16.4)	12.64†	(10.99)	3.2	Apr 19	2.9	-	8.7
Cornwell Parker	6 mths to Jan 31	41.5	(42.4)	3.37L♠	(1.94L♠)	7.3L	(3.6L)	0.3	Apr 13	0.3	-	0.6
EFT	Yr to Dec 31	21.5	(12.4)	5.1	(3.35)	8.43†	(6.74)	1.5	May 7	1.225	2.1	1.75
General Cable	Yr to Dec 31	30.7	(21.1)	21.2L	(18.3L)	8.1L	(9.8L)	-	-	-	-	-
Hay & Robertson	Yr to Sept 30 ‡	0.673	(0.701)	0.702L	(0.083)	35.3L	(11.9L)	-	-	-	-	-
Hays	*6 mths to Dec 31*	*465.6*	*(377.8)*	*60.8*	*(50.8)*	*10.3*	*(8.5)*	2.6	May 31	2.25	-	7
Intrum Justitia	Yr to Dec 31	86.7	(82.2)	15.6	(13.8)	10.2	(8.8)	2.4ǂ	June 3	2.2	3.6	3.3†
Mackie Intl	Yr to Dec 31	22.7	(19.5)	3.27	(9.53♥)	31.1†	(176.3)	7.3	May 22	1	11	1
Perkins Foods	Yr to Dec 31	452	(391.1)	4♠	(19.7)	8.4L	(7.2)	2.75	May 24	2.7	4.5	4.45
Relyon	Yr to Dec 31 ★	48.2	(45.9)	5.83♥	(5.81♥)	18.3	(17.6)	5.3	Apr 22	4.9	7.5	7
Smith & Nephew	Yr to Dec 31	1,026	(964.6)	176.8	(5.5L♠)	10.29	(4.96L)	3.49	July 3	3.26	5.65	5.28
Wetherspoon (JD)	6 mths to Jan 31	45.2	(31.6)	5.55♦	(4.76)	14.8♦	(12.4)	3.1	May 17	2.75	-	8

Investment Trusts		*NAV (p)*		*Attributable Earnings (£m)*		*EPS (p)*		*Current payment (p)*	*Date of payment*	*Corresponding dividend*	*Total for year*	*Total last year*
Beta Global Emerg	Yr to Dec 31	143.1	(160)	0.065L	(1.08L)	0.1L	(3.1L)	-	-	-	-	-

Earnings shown basic. Dividends shown net except ǂgross. Figures in brackets are for corresponding period. ☆US currency. ΦAim stock. ♣Irish currency. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ‡Comparatives for 15 months. ★Comparatives restated. ♦After accounting adjustments.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 06.03.96: Pool purchase price £/MWh	Final Prices for Trading on 05.03.96: Pool purchase price £/MWh	Pool selling price £/MWh
0030	12.66	25.30	27.21
0100	12.56	53.42	55.33
0130	12.56	53.42	55.33
0200	12.56	53.42	55.33
0230	12.56	53.42	55.33
0300	12.64	49.00	50.91
0330	12.56	49.00	50.91
0400	12.68	25.30	27.21
0430	12.66	25.30	27.21
0500	11.66	25.30	27.21
0530	11.77	28.56	30.46
0600	9.70	28.56	30.46
0630	10.34	28.56	30.47
0700	12.96	31.36	34.29
0730	13.70	36.28	39.39
0800	13.73	50.14	54.11
0830	12.86	62.11	66.56
0900	14.76	62.63	67.18
0930	16.94	42.82	47.12
1000	18.15	41.79	45.99
1030	16.10	40.22	44.04
1100	15.85	40.02	43.80
1130	15.21	40.83	44.68
1200	15.15	42.54	46.30
1230	15.05	42.21	46.47
1300	14.65	41.01	44.84
1330	14.50	37.99	41.50
1400	13.80	36.37	39.29
1430	13.65	34.72	37.44
1500	13.60	34.39	36.82
1530	13.62	34.76	37.55
1600	13.68	39.63	43.77
1630	14.00	60.81	65.57
1700	13.54	117.52	126.17
1730	18.61	193.97	217.73
1800	19.57	208.37	229.84
1830	27.23	147.49	163.61
1900	47.04	85.41	93.77
1930	44.22	68.83	81.45
2000	20.08	35.83	38.67
2030	16.70	32.84	34.73
2100	13.80	31.86	33.99
2130	13.70	31.57	33.51
2200	12.93	28.54	30.85
2230	12.86	24.08	25.89
2300	10.34	23.89	25.60
2330	9.70	23.89	25.50
2400	9.66	9.12	9.12

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Kvaerner's bid for Trafalgar

■ Strategy - By Andrew Taylor in London and Hugh Carnegy in Stockholm

Disposals essential to success

Trevor Humphries

Engineering a deal: Erik Tonseth (left) Kvaerner president and chief operating officer yesterday with Nigel Rich, chief executive of Trafalgar House

Mr Erik Tonseth, the chief executive of Kvaerner, was quick yesterday to salve Norwegian worries that the group would move its corporate headquarters from Olso to London in the wake of its proposed takeover of Trafalgar House.

There is little doubt, however, that the real operational power of the group will switch to the British capital as Kvaerner seeks to transform itself into one of the world's biggest construction and engineering groups with a combined annual turnover of more than £6bn.

Most of the group's senior operational executives will work from London, says Tonseth, who first approached Trafalgar last summer with a view to purchasing its John Brown and Davy engineering subsidiaries.

He was told he had the choice of bidding for the whole group or nothing.

No one yesterday was questioning the operational benefits of merging the groups. Of more concern was whether Kvaerner could raise the cash without putting a large hole in its own balance sheet.

Estimates, based on the most recently-published figures, suggest that the merged group will have net debt of about £1.4bn compared with assets of £1.6bn including £500m of goodwill which, under Norwegian accounting rules, will be included as an intangible asset.

Kvaerner also must be sure that there are no black holes lurking with Trafalgar's order book.

The failure to identify problem contracts, before Trafalgar bought Davy for £114m in 1991, was one of the factors which brought the British group to its knees.

The Norwegian group, however, may take comfort from the fact that Trafalgar's revamped management under the chief executive will already have examined these businesses closely and have started to introduce cost savings. In Davy's case these are planned to reduce annual overheads by £20m.

Since the beginning of this year Trafalgar has cut its worldwide labour force by 3,000 to 33,000. More jobs will be lost when the British and Norwegian groups merge and areas of overlapping management and support services are removed and as non-core businesses are sold.

The British group's broadly-based construction skills and its specialist expertise in designing and building process plants for the metal and chemical industries will fit neatly with Kvaerner's engineering interests in manufacturing turbines for hydro electric schemes and process machinery for oil and gas, and pulp and paper industries.

"Increasingly, construction and engineering customers want a complete service from a single supplier. We will be able to offer a wide range of design, construction, manufacturing and installation skills," says Mr Tonseth.

The match is even more impressive between Kvaerner's offshore oil and gas fabrication business, based primarily in the Norwegian sector of the North Sea, and Trafalgar's offshore interests concentrated in the UK sector.

The merged operations, which already are breaking into international markets such as south east Asia, will be one of the world's biggest offshore oil and gas fabricators rivalling the current market leaders Brown & Root and McDermott of the US.

Likely to be put up for sale is Trafalgar's Cunard passenger shipping line, its remaining UK commercial property interests and its US housebuilding business.

Kvaerner is expected to sell its shipping interests, mainly refrigerated vessels but including its cruise line Royal Majesty. It also is expected to sell its shareholdings in Bergesen shipping line and Amec the UK construction and engineering group.

The Norwegian group expects to raise about £1bn from disposals.

Doubts about Kvaerner's ability to finance and manage such a huge transformation seem likely to remain. Disposals are crucial if its plans are to succeed.

■ Cunard - By Tim Burt and Charles Batchelor

Probable buyers include P&O and Carnival

The disposal of Cunard, Trafalgar House's lossmaking cruise line, is one of the options being studied by Kvaerner. Another is a joint venture between the eight-ship fleet and another cruise operator, according to Mr Erik Tonseth.

"A number of companies have approached us about the future of Cunard. We think it is worth more than the aggregate value of the ships," Kvaerner's chief executive said yesterday. Cunard's book value in Trafalgar's last accounts was £200.6m.

He hinted that Kvaerner would seek to raise about £250m from Trafalgar House disposals, in addition to the £250m already realised from the UK group's sale of the Ritz Hotel in London and Ideal Homes, its housebuilding arm.

"Cunard would be much better off in the hands of a specialist operator," said one analyst.

Carnival, the US cruise company, is thought to be a possible buyer because Cunard would give it an opening into the fast growing UK and European cruise market. The North American market is the largest, accounting for 5.15m of the 6.13m passengers who took cruises last year, but growth slowed to 5 per cent last year.

In contrast the UK cruise market increased by 24 per cent in 1995 to 352,000 passengers, according to the Passenger Shipping Association. Growth has been fuelled by the entry of Airtours, the holiday company, into the lower end of the market and the launch last year of the Oriana, the P&O flagship.

Carnival, based in Miami, already has close links with Kvaerner. Since 1990, Kvaerner's Masa-Yards has delivered six large liners to Carnival, the world's biggest luxury cruise operator. But as many of Cunard's vessels are ranked in the "super deluxe" class, it would not broaden Carnival's range of ships, which are also in the top rank.

P&O, by contrast, would expand its market coverage by buying Cunard because its top ship, the Oriana, only comes into the "deluxe" class, according to Mr Peter Wild, a cruise industry analyst. Such a move would propel P&O into the number two position in the international industry with 21,900 passenger berths, compared with 26,500 at Carnival. P&O said it would consider an approach from Kvaerner.

Last December, Cunard reported an annual operating loss of £16.4m amid flat demand for its cruises. Trafalgar, meanwhile, has set aside £30.5m for a root-and-branch restructuring and written down the fleet's book value by £79m.

This follows a catalogue of public relations disasters, dominated by the infamous refit of the QE2 in 1994 which led to large compensation payments to passengers and the departure of Mr John Olsen as Cunard's chairman. As recently as last month a fire broke out on the Sagafjord during a world cruise.

NEWS DIGEST

Body Shop rules out going private

Body Shop International, the "green" cosmetics group, has abandoned plans to become a private company, Mr Gordon Roddick, chairman, and Mrs Anita Roddick, chief executive, said yesterday. Shares fell 2p to 146p.

The Roddicks, who founded the company and floated it in 1984 for £4.6m ($7.1m), said "the considerable level of borrowings required" for a share buyback would have hit future growth. The City believed the minimum offer necessary would have been about 175p a share, which would have valued the company at about £332m. Body Shop said it needed its cash to expand into emerging markets such as India and China.

The Roddicks began talks with banks about turning the Body Shop into a charitable trust last autumn, after the share price touched a low of 107p last year. The Roddicks were dissatisfied with the "short-termist" City, which they felt was undervaluing the company. Mrs Roddick has called City folk "pinstriped dinosaurs". A buy-back would have freed the Roddicks from dealing with shareholders, and would have let them spend more of the company's profits on environmental and humanitarian causes. *Simon Kuper*

Aberdeen in US joint venture

Aberdeen Trust is setting up a joint venture to distribute its investment products in the US with Phoenix Home Life Mutual Insurance of Hartford, Connecticut.

In an associated move, Aberdeen proposes to issue to Phoenix $37.5m (£24.3m) 7 per cent unlisted convertible subordinated loan notes 2003-05, which will be convertible into new ordinary shares at $2.15 each.

If they are all converted, the resulting ordinary shares will represent about 17 per cent of Aberdeen's enlarged capital.

Powell Duffryn disposal

Powell Duffryn, the engineering, ports and distribution group, is selling its 50 per cent stake in an Australian bulk liquid storage business to its joint-venture partner, Koninklijke van Ommeren of Rotterdam. The cash consideration is £5.3m ($8.16m) for net assets of £2.9m. The contribution of the business to Powell Duffryn in the year to March 31 will be approximately break-even.

Laird buys Texan company

Laird Group has, through its US subsidiary Laird Plastics, bought Brooks Industries, a Texas plastics distributor, for $8.25m (£5.4m) cash.

Brooks' turnover in the year to October 31 was $17m and net assets on completion will be $1.85m. Laird Plastics is one of the three biggest distributors of plastic sheet, rod and tube in North America.

■ Institutions - By John Ridding and Tim Burt

Welcome relief from pain

Institutional investors in Trafalgar House yesterday welcomed the agreed takeover by Kvaerner, some of them expressing relief at the deal after enduring a sharp fall in the share price and suspension of dividend payments in recent months.

Of the largest shareholders, Hongkong Land – the property investment arm of the Jardine group – said it would receive £224m in cash from the sale of its 26 per cent stake in Trafalgar House, offsetting some of the losses from its ill-starred investment in the UK conglomerate.

The company, which has given irrevocable undertakings to accept the offer, said it would focus its efforts on Asia for the time being.

"We are looking at investments in the region," said Mr Percy Weatherall, chief executive, adding that the group was examining property projects and that it would also continue its expansion in infrastructure.

In London, other institutional shareholders hinted that they too would be voting to accept the offer. "It's a great relief," said one institution, which asked not to be named. "It was difficult to see how Trafalgar could trade out of its problems, so this is a useful exit."

Another large shareholder said the takeover offered the best prospect for shareholders given Trafalgar's disappointing performance in recent years.

Industry analysts in Hong Kong also welcomed the deal. "This comes as a relief to everybody, and is positive for Hongkong Land", said Mr Vincent Luk, property analyst at James Capel. "It is a good price, but more important is that it resolves the problem of Trafalgar."

Mr Luk said that Hongkong Land was now likely to re-focus on the Asia-Pacific region, including property developments in Hong Kong, where the announcement of the award for the Central reclamation project is expected by the middle of the year.

Hongkong Land's stake in Trafalgar was bought as a strategic investment designed to reduce the dependence of the Jardine business empire on the Hong Kong market ahead of the 1997 handover to Chinese sovereignty. The failure of the investment represented a setback to the strategy, and to the Keswick family which controls Jardine Matheson. However, most investment analysts expressed relief that Hongkong Land had managed to free itself from Trafalgar.

According to Mr Weatherall, the restructuring costs at Trafalgar House, together with asset write-downs, were far greater than it had been possible to determine when Hongkong Land first made its investment in 1992.

He said restructuring efforts were beginning to bear fruit, but that recovery at Trafalgar would have taken a further two or three years.

The overall net deficit against the original investment is about US$156m. After accounting for previous write-downs, the proceeds from the sale of its Trafalgar stake will therefore generate an exceptional profit of US$218m.

British Polythene ahead 31%

By Motoko Rich

Acquisitions helped British Polythene Industries; Europe's largest polythene film producer, raise pre-tax profits 31 per cent to £25.1m ($38.7m) in 1995. Shares rose 29p to 723p.

The group yesterday also announced the acquisition of Bibby & Baron, which makes both paper and polythene bags, for £7.4m in cash and shares. B&B made pre-tax profits of £1.11m in the 12 months to December 2 on sales of £20.4m. It is BPI's fifth purchase since the beginning of 1996.

The eight acquisitions made in 1995 contributed £835,000 to operating profits of £29.7m. Turnover rose from £268.8m to £351.8m, of which £25.7m came from acquisitions. A further £29.8m came from purchases made in 1994. Mr John Langlands, finance director, said volume rose 6 per cent to 267,000 tonnes. Demand was sluggish in the second half.

LAW

Driving licence rules pass test

EUROPEAN COURT

Regulations which require citizens from other European Union states living in Germany to exchange their home country driving licence for a German one within a year of taking up residence are not contrary to the Treaty of Rome, the European Court of Justice ruled.

However, the court said that a breach of such national rules could not be treated as driving without a licence, for which the penalty in Germany is imprisonment or a fine.

The case arose out of a prosecution by the Berlin authorities of two Greek nationals, Mrs Sofia Skanavi and her husband, Mr Konstantin Chryssanthakopoulos. Mrs Skanavi was stopped by the Berlin police in October 1993 when driving a car belonging to the company of which her husband was managing director.

She was in possession of a licence issued by the Greek authorities, but did not have a German one, though resident in Germany for just over a year. She was prosecuted for driving without a licence, and Mr Chryssanthakopoulos for allowing a person to drive a vehicle without a licence.

The German court considered that the accused had committed the offences, but believed that the German legislation might be contrary to articles of the Treaty of Rome concerned with free movement. As a result, it referred a question to the European Court for a preliminary ruling.

The German court wanted to know whether the obligation to exchange a driving licence issued by another member state within one year of taking up normal residence in a state was contrary to European law.

Driving licences were first made the subject of harmonisation through a 1980 directive. It included provision for the exchange of licences within one year of the holders transferring their residence or place of work from one member state to another. A second directive on licences which removed the obligation to exchange them was introduced in 1991, but will only apply from this July.

The German court also asked whether the penalties imposed by the national authorities in such cases were contrary to European law. On the first question, the European Court referred to earlier case law and reiterated that national rules relating to the issue and mutual recognition of driving licences by member states exerted an influence on the exercise of the rights guaranteed by the provisions of the treaty relating to freedom of movement for workers, freedom of establishment and freedom to provide services.

However, the obstacles resulting from the obligation to obtain a driving licence issued by a host member state would only be totally removed when the second directive on licences takes effect in July. Prior to its implementation, European law did not preclude a state from requiring the holder of a licence issued by another EU country to exchange it for a licence of the host country within one year of taking up residence.

On the second question, the European Court observed that although the holder of a licence may be required to exchange it, the original licence would remain valid in the country which issued it and continue to be recognised by the other EU states.

Therefore, the obligation to exchange licences was essentially a way of meeting administrative requirements and, just as in cases concerning non-compliance with formalities for establishing the right of residence, states could not impose a penalty so disproportionate to the gravity of the infringement that the obligation became an obstacle to free movement of persons.

The European Court concluded that treating a person who has failed to have a licence exchanged as if he were a person driving without a licence, and thus rendered punishable by imprisonment or a fine, was disproportionate and contrary to the treaty.

C-193/94: Sofia Skanavi and Konstantin Chryssanthakopoulos, ECJ FC, February 29 1996.

BRICK COURT CHAMBERS, BRUSSELS

INTERNATIONAL PEOPLE

Bell Canada rings the changes

Ronald Osborne (left), 49, a British-born accountant, has emerged as heir apparent at BCE, Canada's largest telecommunications group, only 15 months after joining. In May Osborne takes over as president from Lynton Wilson, 55, a former banker who continues as chairman and chief executive.

Osborne joined BCE as chief financial officer in January 1995 following Rogers Communications's C$3.1bn acquisition of Maclean Hunter, the Toronto publishers and cable TV operators. Osborne, who was Maclean Hunter's chief executive, will now be running the day-to-day operations of Rogers' chief competitor in the communications industry.

He has been described as a sharp corporate player "with a photographic mind". He is also an accomplished amateur singer. Certainly in public he is more loquacious than his boss 'Red' Wilson – whose speeches are well known for their terseness and vague generalities. He also has a strong grasp of the north American cable TV industry.

Wilson has succeeded Raymond Cyr, who has retired after 38 years with the group, as chairman of Bell Canada. *Robert Gibbens*

Anglo's gold chief

Anglo American Corporation of South Africa, the world's biggest gold producer, has changed the chairman of its troubled gold and uranium division. Bobby Godsell (left), Anglo's labour relations guru, has *replaced Clem Sunter who moves to a* new post as chairman of Anglo's corporate affairs division.

Godsell, 43, a South African, was appointed chief executive of Anglo's gold and uranium division last July. He was previously the executive director responsible for the human resources division, public policy department and industrial relations. He made his mark as the architect of a tripartite accord with government and trade unions enshrined last year in South Africa's Labour Relations Act.

Godsell has devoted nearly all his career to labour issues, the most important of the difficulties facing South Africa's gold industry. His promotion reflects the political sensitivity of attempts to improve productivity in Anglo's gold mines. He has built a close working relationship with Tito Mboweni, the minister of labour, since the African National Congress-led government took office in April 1994.

Clem Sunter, 51, who has controlled the gold and uranium division since 1989, is regarded as a patrician-manager in the oldest tradition of Anglo-American, who will be better suited to his new role as "ideas man". He will liaise with group companies to "ensure the optimal use of scenario planning in the development of their business plans, and those of the Corporation, for future growth."

Anglo has made a number of other management changes: Leslie Boyd, 59, chairman of Anglo-American Industrial Corporation, succeeds Pat Retief, 63, as chairman of Anglo American Platinum Corporation; James Campbell succeeds David Rankin as chairman of Anglo's administration committee; Tony Redman succeeds Ken Trueman as managing director of Amcoal. *Mark Ashurst*

Air France reshuffle

Air France has moved swiftly to plug the hole left by Rakesh Gangwal's return to the US as chief operating officer of US Air. Gangwal, 42, a close aide of Stephen Wolf who had been advising Air France on its restructuring, had been drafted in to be Air France's executive vice president for planning and development.

Following Gangwal's departure, Jean-Claude Baumgarten has taken over as executive vice president in charge of corporate international and industry affairs; *Jean-Luc Galzi* becomes adviser to chief executive Marc Véron; and Bruno Matheu, vice president scheduling, takes responsibility for continuing and extending the rationalisation work undertaken by Gangwal. Gianni Marostica, who used to work at Air Canada and American Airlines, has been appointed vice president revenue management and pricing and Marc Véron, Air France's chief executive, takes over corporate marketing and sales. *William Hall*

Recall time at Nikko

Reinstating scandal-tainted executives seems to be the trend in Japan. Nikko Securities, a leading brokerage, last week named Takuya Iwasaki, who resigned as president in 1991 following the spate of securities transaction scandals, as chairman.

Iwasaki had been taking a low profile as deputy chairman as the industry was *embroiled in scandals* involving loss compensation to clients. However, Nikko says the company needed Iwasaki's connections and leadership, amid an increasingly difficulty business environment.

Nikko's move follows last year's decision by Nomura Securities, the industry leader, to appoint as board members Setsuya Tabuchi and Yoshihisa Tabuchi, who were forced to resign from their posts of chairman and president respectively at a similar time as Iwasaki.
Emiko Terazono

Mexican challenge

For brokers whose prime focus was Mexico, 1995 was a very difficult year. So it proved for *Interacciones Global* and its Mexican parent, the Interacciones financial group headed by Carlos Hank Rhon, son of a well-known ruling party politician and owner of one of Mexico's finest modern art collections.

After a year of retrenchment, the company is now
aiming to diversify into markets in Argentina, Chile, Brazil and Peru and *has appointed* a Briton, Tony Ewell, to head the effort.

Ewell, 51, formerly with James Capel, Bear Stearns and BZW in London, joined Interacciones in July 1994 as managing director in London. He will now be chief executive officer of the subsidiary, replacing Lee Kimmell, who has left the company. His manager in London, Jim Clayton, will also be head of operations in New York and *London. Stephen Fidler*

ON THE MOVE

■ Rod Chadwick, 50, managing director of the Pacific Industries group, is to succeed Philip Brass as managing director and chief executive of PACIFIC DUNLOP when Brass retires on July 12. Graham Spurling, 58, ceo of the company's *GNB Technologies* subsidiary, adds Ansell International to his responsibilities in the new position of President of Pacific Dunlop Holdings (USA).

■ Four new directors have *been named at SAUDI* ARAMCO, Saudi Arabia's state-owned oil producer. They are commerce minister Osama bin Jaafar bin Ibrahim Faqih; minister of state Musaed bin Mohammad al-Ayban; the head *of King Fahd University,* Abdul-Aziz al-Dekhail; and Aramco's executive vice president for exploration and production, Saddad al-Hussein. Three Americans have been reappointed: Harold Haynes, former chairman of Chevron; Rodney Wagner, formerly of Morgan Guaranty Trust; and former Exxon chairman, Clifford Garvin. The 10-member board reports to Aramco's Supreme Council, *which is headed by King Fahd.* It is chaired by Aramco's former chief executive, Ali bin Ibrahim al-Nuaimi.

■ Terje Mikalsen has resigned as chairman of HAFSLUND NYCOMED, the Norwegian *drugs to energy group,* and sold a big batch of Hafslund shares, following the failed merger with Ivax. Johan *Fredrik Odfjell succeeds him.*

■ Patrick Verderico, chief financial officer of Creative Technology, the Singapore-based computer sound card maker, is moving to MAXTOR Corp. as chief *operating officer.*

■ Michael Whelan has resigned as chairman and managing director of Ireland's ARAN ENERGY, following the company's takeover by Norwegian state oil firm *Statoil. Finn Kulas, md of* Statoil UK, takes the chair, with Jacob Sannes, general manager of Statoil UK E&P, as Aran's managing director.

■ Ian Dart, national manager systems integration services, rises to group general manager BHP INFORMATION TECHNOLOGY.

■ Stuart Booth, 45, has been promoted to senior vice president – finance and development at PACIFIC GAS *& ELECTRIC ENTERPRISES.* Jack Fusco, 33, becomes executive director – international development, with a remit to manage the evaluation and acquisition of international energy distribution companies, and oversee investments by Enterprises' subsidiaries.

■ Carter Beese jnr., vice chairman of Alex Brown International; Grant Gregory, chairman of Gregory & Hoenemeyer; and Thomas Hsieh of the San Francisco board of supervisers, join the board of RENAISSANCE *HOTEL GROUP.*

■ Yasumi Mizuno, 49, returns to the US from Japan as vice president responsible for sales and marketing co-ordination and communications with Fuji Heavy Industries, parent *company of Subaru of* America.

■ Peter Buescher joins GUINESS BREWING WORLDWIDE from R J Reynolds Tobacco, as managing director of the Asia-Pacific division and a member of the executive board.

■ Mathias DeVito, chairman of the Rouse Company and a director of US Air Group, joins the board of ALLIED IRISH BANK as a non-executive director.

■ Hajime Sakai rises to president of KYUSHU MATSUSHITA ELECTRIC of Japan, from April 1. He is currently deputy president, in charge of the finished product division and factory automation division.

■ Christian Dube, formerly a *partner at Coopers & Lybrand/* Laliberte Lanctot, joins DOMTAR, the north American forest products group, as vice-president and treasurer.

■ James Frey, 57, chairman of Litton's Itek Optical Systems *division, has* been given a strategic planning role covering the whole LITTON INDUSTRIES group.

■ Claude Darmon joins the central management of GEC ALSTHOM on April 1 as managing director. He joins Pierre Bilger, president and ceo, and James Cronin, managing director. André Navarri is promoted to succeed Darmon as md of the transport division.

■ Elia Colabraro has resigned as chairman of SPEI LEASING, the IMI group's loss-making leasing subsidiary.

■ *Bill Grant has been named* senior vice president, marketing, LUCAS AUTOMOTIVE for North America.

■ John Gaulding has been appointed as chief executive of *NATIONAL INSURANCE* GROUP of the US, a leading provider of information services and specialised insurance to financial institutions. He replaces Mel Croner, a management *consultant. Gaulding is the* former chief executive of ADP Claims Solutions Group.

■ Hiromi Yokoyama rises from deputy to president of BARCLAYS Trust & Banking Company (Japan) on April 1, replacing Terry Carter who is retiring. Yoichi Kamina, currently executive director, Japan Equity Product at BZW Securities (Japan), becomes managing director of BTB. Hideaki Mochizuki, who is to become general manager and head of the domestic sales desk, will take over Kamina's role at BZW Securities (Japan).

■ Ian Heron has resigned as southern Africa managing director of pulp and paper manufacturer SAPPI. Ian Forbes, currently managing director of Sappi Kraft, take over the post.

■ *Josep Zaforteza has been* appointed executive vice chairman of Fuerzas Electricas de Cataluna (FECSA).

■ Sherif Nada is to succeed Gordon Watson, 54, as president of FIDELITY BROKERAGE GROUP *when* Watson retires in June. Timothy McKenna, 42, succeeds Nada as president of *Fidelity Capital Markets.*

■ Reed Eller, 55, has been named general manager for Europe, the Middle East and Africa for MOTOROLA MULTIMEDIA GROUP.

■ Peter Barnett has joined the board of Australia's MAYNE NICKLESS group, where Nobby Clark has retired.

■ Hubert Ng Ching-wah, managing director of Hongkong Telecom, has been appointed chief executive of SMARTONE MOBILE COMMUNICATIONS, from April 1.

International appointments

Please fax announcements of new appointments and retirements to +44 171 873 3926, marked for International People. Set fax to 'fine'.

هكذا من الأصل

COMMODITIES AND AGRICULTURE

Coffee prices set for sharp rise as production deficit cuts stocks

By Deborah Hargreaves

World coffee prices could move sharply upwards in the next three months as stocks held by consumers remain at very low levels, according to GNI, the London brokers.

Mr Lawrence Eagles, GNI commodities analyst, said he believed green coffee prices could increase by 40 cents a lb to around $1.50 a lb by June. "That is currently being thwarted by very high shipments from Mexico, which have given the American roasters a bit of a breathing space," he said.

Mexican coffee exports increased to 2.2m bags in February compared with 1.5m bags in the same period last year, as producers took advantage of tight world supplies to increase sales.

World coffee prices have been extremely volatile in the first few months of the year, with producers suggesting a conspiracy among consuming companies to push prices down.

Mr Eagles said it was wrong to blame speculators for much of the exaggerated movement in the price of coffee. "Volatility has been extreme, and the recent slump and recovery is reminiscent of a speculative overshoot. However to blame recent trading patterns on speculators is a convenient excuse," GNI said in its latest monthly report.

Mr Eagles attributed much of the current market volatility to the fact that roasters were buying on a hand-to-mouth basis while consumer stocks were low and processed stocks at a bare minimum. "The world market has not seen the full extent of the roasters' demand," he said.

The situation in the coffee market is a "waiting game", with roasting companies awaiting shipments of new-crop coffee from Brazil. The shipments usually start to arrive in August. "Producers are waiting to see whether roasters have high enough stocks to hold out until then," Mr Eagles said.

GNI forecast this year's production deficit in the coffee market to reach around 14m bags – the highest for five years – if consumption continued to rise.

The shortfall should start to decrease in the second half of the year as the latest Brazilian shipments reach the market. This year's Brazilian crop is expected to be reasonable, at 23m to 25m bags.

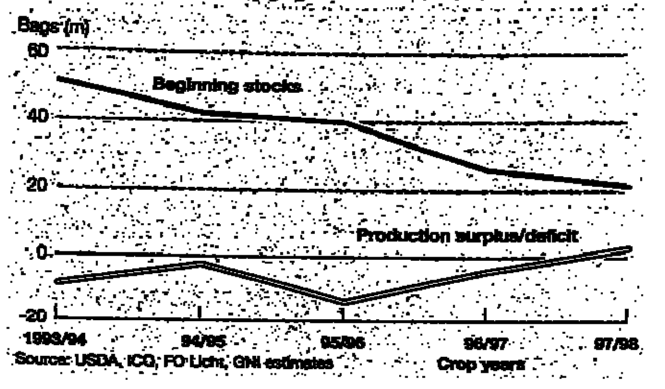
GNI has forecast a deficit for the 1996-1997 crop year of 4.5m bags, which it expects to turn into a surplus of 2.8m bags in 1997-1998.

Consumption fell by 4.5 per cent when the coffee market soared in 1994-1995 after frosts damaged the Brazilian crop. However Mr Eagles predicted that consumer demand would increase this year and rise steadily to more than 100m bags by 1998.

"I am optimistic that consumption will continue to rise but that's based on the assumption that retail prices won't rise significantly if green coffee is up," said Mr Eagles.

● An official from the Association of Coffee Producing Countries indicated that it could raise its export ceiling by 8 per cent next year to 65m bags.

Coffee: world supply and demand



Source: USDA, ICO, FO Licht, GNI estimates

Consumers delay rubber agreement

By Frances Williams, in Geneva

Rubber producing and consuming states are to meet in Geneva later this month in an attempt to save their new international accord from foundering because of a lack of support from consumers.

The March 28 meeting is expected to agree a six-month extension to the original deadline of December 28 1995 for countries to sign the third International Natural Rubber Agreement (INRA).

Adopted in February 1995, the pact has to be signed and ratified by states representing at least 75 per cent of rubber production and consumption before it can come into effect in January 1997.

Producers have already met the first requirement. Thailand, Indonesia, Malaysia and Sri Lanka, the four biggest producers which account for 94 per cent of output, signed the accord shortly before the deadline.

But among consumers only the European Union and Japan, representing 48 per cent of demand, have signed. The US, which accounts for 29 per cent of consumption, missed the December deadline because of the government shutdown caused by its budget crisis.

China, the world's second biggest rubber importer, and several African producers also failed to meet the deadline for the accord, which has been drawn up to replace a similar 1987 agreement that expired last December.

The Geneva meeting was called by the United Nations Conference on Trade and Development at the request of Mr Pong Sono, executive director of the International Natural Rubber Organisation based in Kuala Lumpur.

Several governments are said to have indicated their willingness to sign the 1995 agreement if the deadline were extended. Washington, a member of the 1987 pact, is expected to attend the meeting.

The INRA is the sole remaining international commodity accord which operates a buffer stock facility to stabilise prices. The 1995 agreement, if ratified, will run for four years from 1997 with the possibility of an extension for two more years.

Albania attracts foreign investors to revive mines

By Marianne Sullivan, in Tirana

Albania, once the world's third-largest chromium exporter, is trying to revive its mining industry, which collapsed after the country's transition to democracy in 1991.

The small, mineral-rich country produced 343,000 tons of chromium in 1995, down from 1.2m tons in 1989. Copper production has also declined following the closure of inefficient mines and an end to the use of forced labour.

New technology and markets are needed to pump fresh energy into the mining industry, according to Mr Abdyl Xhaja, Albania's minister of mineral and energy resources. Although Mr Xhaja agrees that production will never match what it was under communism, he says the country is trying to reactivate efficient mines through a combination of European aid and the encouragement of foreign investment.

Albania's chrome exports have more than doubled since 1992 from $15m to $36m. Copper exports have risen by more than 400 per cent since 1992, up from $2m to $8.8m in 1995. Mr Xhaja hopes chrome exports will double again in the near future.

He points to the country's new mining and foreign investment laws and its privatisation programme as incentives for foreign companies to explore Albania's mineral resources.

One result of efforts to restart the industry is the launch of a joint mining venture with Calgary-based mining exploration company Nebex Resources, which will look for gold.

Drilling began in January in the northern district of Mirdita, a copper-producing region where GeoAlba, Albania's geological research organisation, has estimated that there are gold deposits of up to 13.96 grams per ton.

Mr Michael Trapnell, manager of the Nebex operation in Tirana, says the company's analysis, whose results will be announced shortly, has shown that the gold content may be slightly higher than GeoAlba's estimates.

Nebex hopes that modern technology will enable it to separate gold from copper – something which the Albanians were unable to achieve.

However Mr Trapnell says that if the junior company plans to move into the exploitation phase of mining, it will probably need the help of a larger company. Nebex is also carrying out follow-up drilling at the Yellowknife gold camp in Canada following an earlier gold discovery.

Nebex has an initial planned investment of $2.25m, with an option to earn 80 per cent on exploitation, with GeoAlba taking the remaining 20 per cent.

In addition to the two concessions in Mirdita, the company has concessions in the northern Kukes district and Radomir, both of which contain base metal deposits. The total area of the four concessions is 1,050sq km.

Meanwhile villagers in the northern village of Gurth, where Nebex has set up shop, are hopeful that the venture will bring work. Unemployment, they say, has reached 60 per cent in an area where most of the population had worked in mining.

Nebex has already employed at least 20 locals, and if exploration goes ahead it plans to employ more. "There is little else for us to do here," locals say. "Many of the young people have left for the cities or gone to Greece. Now at least a few of them have been able to come back."

MARKET REPORT

Gold and wheat hit by investment fund selling

Gold, wheat, corn and soyabean prices tumbled yesterday as the speculative US investment funds that rely on technical indicators received "sell" signals from their charts and computer programmes.

In London gold's price was "fixed" at US$393.70 a troy ounce, its lowest since January 4, and this triggered follow-up selling in New York. Traders said there was no fundamental reason for yesterday's fall but the technical indicators suggested gold's price would weaken further.

Prices of agricultural products fell at the Chicago Board of Trade as funds piled out of futures contracts.

Wheat prices fell in spite of forecasts of dry weather in the Great Plains area, the main US winter wheat growing region. By mid session the March futures contract at the CBOT had slipped by 6¼ cents to $5.09 a bushel.

Speculative and commission house selling pushed London cocoa prices to a 7-month low of £892 a tonne. By the close they had recovered to £899.

Trans Hex aims to raise diamond output

By Kenneth Gooding, Mining Correspondent

Trans Hex, South Africa's second-biggest diamond producer, aims to quadruple production in the next five years. This would take its output of 215,000 carats of rough diamonds, worth US$57m, to 1m carats, worth $250m.

To achieve this Trans Hex is expanding aggressively outside its home base. During the next 12 to 15 months the company will spend about $7m on joint venture exploration projects, mainly in Zimbabwe, Namibia and the Central African Republic.

It has grouped its exploration properties outside South Africa into a new subsidiary, Trans Hex International, which has gained a stock exchange quotation in Toronto by exchanging shares with a small company there.

Mr Niel Hoogenhout, group managing director, said: "We need a vehicle for raising funds outside South Africa because we can't wait for [South Africa's] exchange controls to be removed. And Canada is the right place for a diamond exploration company to be quoted."

He suggested that within a year THI should have a feasibility study on at least one of its properties. Then it would raise between C$20m and C$30m for further development.

Trans Hex has been exploring in the Central African Republic for nearly three years and recently hired a large Russian cargo aircraft to carry a test diamond recovery plant and other mechanical equipment, weighing 120 tonnes, to its project there.

Mr Hoogenhout said Trans Hex was interested only in alluvial (or surface) diamond mining and was probably the foremost company of its type in the world. Alluvial diamonds tend to be high value and Trans Hex receives an average of US$500 a carat for the stones it mines at its Baken mine in South Africa. This compares with an average of $150 a carat for the rest of the South African industry and $100 a carat for the global industry. Trans Hex sells its diamonds via tender outside the producers' cartel organised by De Beers. Last week a 24 carat rough diamond found at Baken was sold for $602,000, or $25,000 a carat.

Trans Hex is quoted on the Johannesburg stock exchange and is 50 per cent owned by Rembrandt, the South African conglomerate. Mr Hoogenhout said: "Rembrandt is giving us every support. Our growth will keep Rembrandt happy."

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1597-98	1627-28
Previous	1593.5-94.5	1624-25
High/low	1598/1596.5	1633/1623
AM Official	1596.5-97.0	1627-27.5
Kerb close		1623-24
Open int.	208,648	
Total daily turnover	55,254	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1355-60	1390-95
Previous	1360-65	1394-97
High/low		1395/1390
AM Official	1355-60	1390-92
Kerb close		1390-5
Open int.	5,259	
Total daily turnover	541	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	772.5-3.5	771-72
Previous	767.5-8.5	764.5-65
High/low		773/765.5
AM Official	769-70	769-70
Kerb close		767-8
Open int.	38,720	
Total daily turnover	8,521	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	7825-35	7930-35
Previous	7855-65	7960-65
High/low	7860	8000/7900
AM Official	7860-65	7964-65
Kerb close		7890-900
Open int.	40,703	
Total daily turnover	7,675	

■ TIN ($ per tonne)

	Cash	3 mths
Close	6145-55	6210-15
Previous	6110-20	6180-90
High/low		6220/6190
AM Official	6145-50	6210-15
Kerb close		6190-200
Open int.	16,417	
Total daily turnover	5,123	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1037-38	1058-59
Previous	1033.5-4.5	1053-54
High/low		1059/1054
AM Official	1037-38	1058-58.5
Kerb close		1054-5
Open int.	75,590	
Total daily turnover	32,698	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	2597-600	2537-38
Previous	2569-72	2519-20
High/low	2583/2591	2542/2520
AM Official	2583-84	2530-31
Kerb close		2533-34
Open int.	168,989	
Total daily turnover	60,347	

■ LME AM Official £/$ rate: 1.5285
LME Closing £/$ rate: 1.5283

Spot: 1.5290 3 mths: 1.5261 6 mths: 1.5230 9 mths: 1.5200

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	118.15	+1.10	118.40	117.80	1,965	6,320
Apr	118.35	+1.85	118.35	117.00	138	1,630
May	117.85	+1.65	117.90	116.00	7,216	18,893
Jun	116.00	+1.40	116.00	115.60	105	766
Jul	114.55	+1.25	114.60	113.30	187	4,395
Sep	112.35	+1.15	112.40	111.30	94	2,926
Total					9,613	41,945

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	393.60-394.00		
Opening	398.80-399.20		
Morning fix	398.65	260.658	478.380
Afternoon fix	393.70	257.287	471.653
Day's High	399.00-399.40		
Day's Low	392.60-393.00		
Previous close	398.10-398.50		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.47	6 months	3.76
2 months	4.28	12 months	3.38
3 months	4.13		

Silver Fix	p/troy oz.	US cts equiv.
Spot	359.20	549.25
3 months	364.35	556.00
6 months	368.85	561.90
1 year	378.60	574.30

Gold Coins	$ price	£ equiv.
Krugerrand	399-402	261-263
Maple Leaf	404.90-407.40	
New Sovereign	94-97	62-64

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	393.9	-5.0	393.9	392.5	1	-
Apr	395.2	-5.0	400.8	393.8	28,786	108,436
Jun	397.9	-5.1	403.6	396.0	2,006	39,857
Aug	400.3	-5.1	403.7	399.0	387	11,433
Oct	402.6	-5.1	405.5	402.0	472	4,218
Dec	404.9	-5.1	409.9	403.7	300	13,823
Total					32,287	221,850

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	408.0	-4.8	412.8	408.1	1,928	13,769
Jul	410.5	-4.7	415.0	409.0	943	4,828
Oct	412.8	-4.7	417.0	411.0	34	1,480
Jan	414.8	-4.7	-	-	526	284
Total					3,401	21,037

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	133.75	-1.40	134.50	133.00	91	699
Jun	134.25	-1.40	135.00	133.50	954	6,182
Sep	135.50	-1.40	135.00	135.00	23	129
Dec	136.75	-1.40	136.50	136.50	1	77
Total					1,045	6,814

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	537.3	-12.2	551.5	535.0	1,044	1,343
May	541.7	-12.3	555.5	538.0	11,623	50,887
Jul	546.4	-12.6	560.0	542.0	843	13,707
Sep	550.8	-12.6	565.5	550.0	531	10,893
Dec	557.4	-12.6	570.0	555.0	73	7,210
Mar	564.0	-12.6	-	-	110	2,856
Total					14,160	89,591

ENERGY

■ CRUDE OIL NYMEX (42,000 US galls. $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	19.06	-0.38	19.55	18.78	50,010	98,229
May	18.22	-0.40	18.62	18.00	21,118	64,878
Jun	17.82	-0.31	18.04	17.60	9,946	42,834
Jul	17.62	-0.31	17.60	17.34	3,942	36,601
Aug	17.30	-0.32	17.32	17.19	1,503	18,299
Sep	17.20	-0.26	17.22	17.05	1,331	16,053
Total					93,093	420,252

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	17.45	-0.31	17.55	17.20	16,421	53,814
May	16.72	-0.31	16.85	16.54	12,715	40,567
Jun	16.33	-0.25	16.42	16.21	1,491	29,350
Jul	16.04	-0.26	16.07	15.93	1,666	32,924
Aug	15.82	-0.28	15.85	15.79	521	6,044
Sep	15.71	-0.25	15.72	15.69	190	11,470
Total					31,544	199,653

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	52.30	-1.12	53.52	51.40	15,947	29,475
May	49.30	-0.90	50.25	48.65	5,129	13,721
Jun	47.85	-0.85	48.20	47.80	1,849	12,553
Jul	47.60	-0.75	47.65	47.40	1,098	7,453
Aug	47.85	-0.70	48.00	47.80	899	5,636
Sep	48.70	-0.65	49.25	48.65	110	2,664
Total					28,883	87,908

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	166.00	-2.75	168.50	164.25	8,488	21,666
Apr	157.00	-2.25	158.25	156.00	5,702	17,740
May	152.00	-1.75	152.50	151.25	1,025	7,008
Jun	149.25	-1.50	149.75	149.75	1,038	7,512
Jul	148.00	-1.50	148.25	147.75	170	4,918
Aug	148.50	-1.00	149.00	148.00	325	2,817
Total					17,804	71,401

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	2.145	-0.011	2.230	2.110	14,355	28,337
May	2.030	-0.028	2.085	2.015	3,132	18,585
Jun	1.980	-0.011	2.010	1.975	2,394	14,626
Jul	1.945	-0.011	1.985	1.945	1,286	13,122
Aug	1.920	-0.006	1.925	1.920	805	11,719
Sep	1.900	-0.006	1.905	1.900	756	9,007
Total					24,927	141,146

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	58.75	-1.00	59.65	58.40	10,653	30,978
May	58.00	-0.86	58.50	57.60	5,792	15,180
Jun	56.95	-0.71	57.20	56.55	1,926	7,290
Jul	55.40	-0.85	55.65	55.25	1,050	5,859
Aug	54.00	-0.83	54.80	53.90	255	3,131
Sep	-	-	-	-	235	704
Total					20,408	64,311

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	115.65	-1.30	115.80	115.60	26	263
May	118.00	-1.05	119.15	118.00	214	3,612
Jul	120.00	-1.00	120.75	120.00	83	596
Sep	109.50	-0.95	-	-	-	205
Nov	110.75	-1.00	111.25	110.75	60	1,403
Jan	112.25	-1.15	113.00	113.00	5	273
Total					393	6,389

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	512.50	-3.00	513.00	506.00	12,760	8,571
May	501.50	-1.00	504.00	495.00	32,560	28,523
Jul	467.25	+3.75	467.75	459.00	36,605	48,273
Sep	469.25	+3.25	469.50	461.00	533	8,775
Dec	480.00	+4.00	490.00	472.00	762	6,815
Mar	480.00	+3.00	480.00	475.00	20	280
Total					17,893	101,547

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	389.25	-4.00	392.50	385.25	67,220	29,504
May	383.00	-3.75	388.50	377.50	160,395	208,375
Jul	378.25	-3.00	378.25	370.00	58,890	121,899
Sep	323.75	-3.00	326.50	319.50	22,345	35,103
Dec	309.75	-2.00	310.00	306.50	47,470	86,558
Mar	315.00	-2.25	315.00	311.75	401	7,030
Total					71,894	491,728

■ BARLEY LCE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	108.00	-0.20	108.00	108.00	1	341
May	108.75	-0.45	109.00	109.00	5	488
Sep	105.80	-0.70	105.80	105.80	5	37
Nov	107.65	-0.85	108.20	107.75	50	419
Jan	109.65	-0.70	-	-	-	93
Total					61	1,402

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	720.25	-8.00	724.00	717.50	8,607	8,822
May	730.00	-8.25	737.00	727.00	132,670	72,392
Jul	738.00	-8.25	742.00	735.00	32,300	50,553
Aug	739.25	-7.50	741.50	736.50	585	5,736
Sep	728.00	-7.50	731.00	727.00	716	3,832
Nov	724.50	-5.75	730.25	722.50	44,375	50,718
Total					82,159	197,394

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	23.50	+0.03	23.62	23.33	9,236	5,736
May	23.78	-0.02	23.98	23.50	21,930	36,706
Jul	24.18	-0.01	24.55	23.86	4,971	24,949
Aug	24.36	-	24.40	24.28	1,305	6,834
Sep	24.55	-	24.60	24.50	454	3,552
Oct	24.72	+0.01	24.78	24.65	229	2,867
Total					38,789	99,188

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	229.3	-3.1	232.4	227.8	8,316	5,573
May	233.2	-3.5	235.5	231.5	12,165	41,214
Jul	236.2	-3.7	239.3	235.0	4,082	22,711
Aug	236.4	-3.6	238.0	235.6	286	5,375
Sep	235.6	-3.4	236.5	235.0	291	3,154
Oct	231.5	-3.2	233.5	231.5	237	2,584
Total					24,246	89,067

■ POTATOES LCE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	200.0	-	-	-	-	-
Apr	187.5	+1.2	187.0	187.0	14	875
May	199.0	-	-	-	-	30
Jun	225.0	-	-	-	-	-
Nov	105.0	-	-	-	-	-
Total					22	971

■ FREIGHT (BIFFEX) LCE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	1378	-16	1389	1375	41	818
Apr	1380	-7	1390	1366	104	1,420
May	1370	-20	1370	1365	83	108
Jul	1274	-1	1270	1260	36	1,706
Oct	1318	-2	1320	1310	13	614
Jan	1385	+10	-	-	-	52
Total					277	4,749

	Close	Prev
BFI	1349	1357

FUTURES DATA
All futures data supplied by CMS.

Tea
There was improved general demand this week reports the tea broker's Association. Best and bright medium East Africans were firm to occasionally dearer. Coloury mediums sold well and often appreciated but plain liquoring teas moved easier. Offshore: good competition at around last levels. Quotations: best available: 145p-167p/kg, good: 130p-142p/kg, good medium 110p-125p/kg, medium 92p-100p/kg, low medium: 78p-85p, highest price realised this week was 167p/kg for a burundi pf.1.

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	874	-4	882	869	182	544
May	900	-4	907	892	1,884	27,502
Jul	926	-4	933	919	1,287	15,084
Sep	943	-6	949	940	559	38,723
Dec	962	-5	967	960	330	18,854
Mar	982	-4	987	979	698	36,956
Total					5,073	150,039

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	1225	-12	1243	1235	55	380
May	1241	-12	1253	1240	17,120	40,138
Jul	1263	-13	1275	1262	6,990	18,746
Sep	1287	-10	1298	1287	1,523	11,680
Dec	1322	-9	1329	1320	1,276	11,473
Mar	1349	-9	1355	1350	39	7,489
Total					27,881	95,845

■ COCOA (ICCO) (SDR's/tonne)

Mar 1	Price	Prev. day
Daily	918.87	927.97

■ COFFEE LCE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	1995	+13	2009	1975	382	4,299
May	1809	+9	1821	1790	2,001	13,331
Jul	1742	+17	1750	1710	215	4,325
Sep	1709	+13	1716	1680	166	2,914
Nov	1681	+6	1688	1680	34	1,227
Jan	1663	+13	1665	1630	22	279
Total					2,820	26,375

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	114.50	+1.00	115.25	114.45	357	1,113
May	111.65	+0.85	113.45	110.60	8,247	15,478
Jul	110.40	+0.95	112.00	110.00	864	4,276
Sep	109.25	+0.55	110.75	109.00	228	3,070
Dec	108.35	+1.45	109.75	108.25	97	1,382
Mar	108.50	+1.50	108.60	108.60	12	412
Total					9,805	25,889

■ COFFEE (ICO) (US cents/pound)

Mar 1	Price	Prev. day
Comp. daily	102.16	105.41
15 day average	109.30	110.02

■ No7 PREMIUM RAW SUGAR LCE (cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	10.90	-	-	-	-	-
May	11.90	-	-	-	-	-
Jul	11.80	-	-	-	-	-
Total					-	-

■ WHITE SUGAR LCE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	377.4	+0.1	377.4	375.1	523	14,151
Aug	357.0	-1.3	357.7	356.5	360	7,170
Oct	320.0	-3.2	321.7	320.8	114	4,853
Dec	312.6	-1.2	313.4	310.9	25	2,574
Mar	307.9	+4.0	307.4	307.1	29	701
May	306.5	+4.6	305.5	305.5	16	533
Total					1,013	29,924

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
May	11.70	+0.05	11.75	11.60	20,000	51,793
Jul	10.86	+0.01	10.87	10.81	6,616	34,975
Oct	10.50	-0.01	10.51	10.47	1,530	27,258
Mar	10.24	-0.01	10.25	10.21	554	14,150
May	10.15	-	10.15	10.14	96	3,439
Jul	10.00	-	-	-	135	1,296
Total					28,959	143,269

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	81.48	-0.29	82.50	81.48	120	277
May	82.78	-0.47	83.50	82.55	4,229	22,450
Jul	83.90	-	84.15	83.30	581	11,745
Oct	81.23	-0.02	81.45	81.00	105	2,348
Dec	79.05	-1.00	80.40	79.75	1,548	16,916
Mar	80.88	-0.02	81.05	80.87	52	1,612
Total					6,740	57,987

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	130.50	+0.10	130.80	128.25	583	756
May	127.80	-	128.40	126.75	1,360	12,179
Jul	127.25	-	127.60	126.50	214	2,823
Sep	125.25	-0.15	125.50	125.00	40	1,995
Nov	121.95	-0.55	122.50	122.00	4	645
Jan	121.45	-	121.50	121.50	13	2,414
Total					2,224	20,890

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME and CSCE are one day in arrears.

INDICES

■ REUTERS (Base: 18/9/31=100)

Mar 4	Mar 1	month ago	year ago
2128.6	2135.6	2177.8	2337.2

■ CRB Futures (Base: 1967=100)

Mar 1	Feb 29	month ago	year ago
244.46	248.77	248.30	232.68

■ GSCI Spot (Base: 1970=100)

Mar 1	Feb 29	month ago	year ago
195.50	197.70	194.93	175.22

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Apr	62.725	-0.025	63.050	62.450	12,900	33,331
Jun	62.725	+0.325	62.925	62.100	6,113	23,771
Aug	62.025	+0.075	62.275	61.800	2,101	11,218
Oct	63.000	+0.025	63.150	62.800	919	10,125
Dec	62.025	-	62.200	61.850	1,089	5,402
Feb	62.025	+0.175	62.150	62.000	282	2,825
Total					23,527	86,801

■ LIVE HOGS CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Apr	48.475	+0.675	48.525	47.500	2,976	12,274
Jun	53.750	+0.700	53.800	52.925	2,375	11,469
Jul	51.650	+0.325	51.775	51.150	430	3,027
Aug	49.750	+0.525	49.800	48.800	339	3,926
Oct	46.000	+0.525	46.150	45.300	104	2,058
Dec	47.100	+0.500	47.200	46.500	91	1,605
Total					6,396	35,111

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Mar	67.075	+1.825	67.150	64.500	818	2,300
May	67.500	+1.475	67.600	65.300	2,374	6,181
Jul	63.975	+1.300	64.000	61.800	781	1,960
Aug	60.100	+0.850	60.200	58.600	160	403
Feb	65.700	+1.100	65.700	64.100	5	6
Mar	65.000	-	65.000	65.000	3	2
Total					4,137	10,833

LONDON TRADED OPTIONS

Strike price $ tonne	— Calls —		— Puts —	
■ ALUMINIUM (99.7%) LME	May	Jul	May	Jul
1500	129	152	8	17
1600	57	85	35	48
1700	18	41	95	102
■ COPPER (Grade A) LME	May	Jul	May	Jul
2400	-	146	-	40
2500	95	88	34	80
2600	43	48	81	138
■ COFFEE LCE	May	Jul	May	Jul
1850	79	139	120	230
1900	61	105	152	265
1950	47	104	188	302
■ COCOA LCE	May	Jul	May	Jul
875	37	72	12	21
900	23	58	23	30
925	13	43	38	42
■ BRENT CRUDE IPE	Apr	May	Apr	May
1700	60	49	24	64
1750	33	31	45	-
1800	14	18	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$15.95-6.06w	-0.060
Brent Blend (dated)	$18.38-8.40	-0.220
Brent Blend (Apr)	$17.43-7.45	-0.170
W.T.I.	$19.05-9.07w	-0.135

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

		+or-
Premium Gasoline	$184-185	-2
Gas Oil	$167-169	-4.5
Heavy Fuel Oil	$102-104	
Naphtha	$167-169	
Jet fuel	$199-202	-9.5
Diesel	$181-183	-3

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

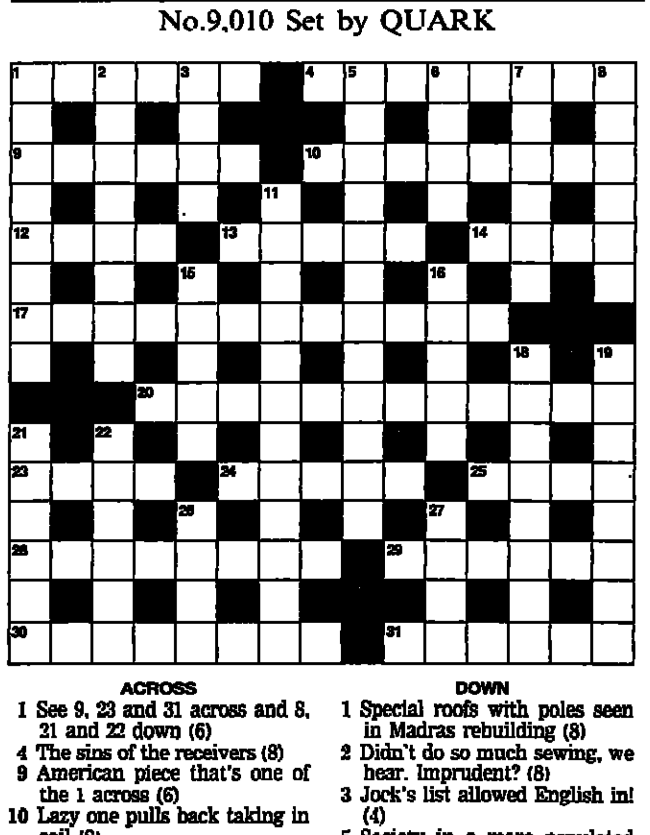
		+or-
Gold (per troy oz)♣	$393.80	-4.50
Silver (per troy oz)♣	541.5c	-9.0
Platinum (per troy oz.)	$410.50	-2.25
Palladium (per troy oz.)	$137.00	-0.50
Copper	122.0c	
Lead (US prod.)	41.75c	
Tin (Kuala Lumpur)	15.62m	+0.05
Tin (New York)	290.50c	+2.00
Cattle (live weight)†	118.46	-1.04*
Sheep (live weight)†♠	132.55	+0.58*
Pigs (live weight)†	100.22	-1.62*
Lon. day sugar (raw)	$309.8	-0.4
Lon. day sugar (wte)	$395.8	-1.5
Barley (Eng. feed)	113.5	
Maize (US No3 Yellow)	150.5z	
Wheat (US Dark North)	Unq.	
Rubber (Apr)♥	109.25p	+0.50
Rubber (May)♥	109.25p	+0.50
Rubber (KL RSS No1)	412.00m	-2.0
Coconut Oil (Phil)§	$740.0v	-2.5
Palm Oil (Malay.)§	$505.0u	-5.0
Copra (Phil)§	465.0v	-2.0
Soyabeans (US)	210.0u	-2.0
Cotton Outlook'A' index	82.80	
Wooltops (64s Super)	438p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. u Mar. ♥ w Apr. y Feb/Mar. v Apr/May London Physical. § CIF Rotterdam. ♣ Bullion market close. ♠ Sheep (Live weight prices) * Change on week †Prices are for previous week.

JOTTER PAD

CROSSWORD

No.9,010 Set by QUARK



ACROSS

1 See 9, 23 and 31 across and 8, 21 and 22 down (6)
4 The sins of the receivers (8)
9 American piece that's one of the 1 across (6)
10 Lazy one pulls back taking in sail (8)
12 Friendly start put off supporter (4)
13 Lip or another facial feature? (5)
14 Unbleached material seen in Aztec rug (4)
17 The lady's affected by spirit and deprived of her home? (12)
20 Depressed earth needs I'd replaced (12)
23 Smoother one of the 1 across (4)
24 The age to muse? (5)
25 Some beverage for the girl (4)
28 After treatment proves A1 to turn into gas (8)
29 1 across found naturally are (6)
30 Lofty Royal Academy judge that's seen with duke (8)
31 Inexperienced youth holding degree is one of the 1 across (6)

DOWN

1 Special roofs with poles seen in Madras rebuilding (8)
2 Didn't do so much sewing, we hear. Imprudent? (8)
3 Jock's list allowed English in! (4)
5 Society in a more populated world providing absorbing material (7,5)
6 The side's advantage (4)
7 Part of church being unfinished is a risk (6)
8 Wedding response arising in total is one of the 1 across (6)
11 Shh! Old English coppers unearthed glow in the dark (12)
15 Doctor's endless argument – a recurrent theme (5)
16 Plane's attempt not right for landing-place (5)
18 CIA angle when going over the plant (8)
19 Jack's almost in a depression? Could be touching (8)
21 Pirate that's one of the 1 across (6)
22 Bobby is one of the 1 across (6)
26 Short university tutor is to gain when it goes (4)
27 Father gets round lower part of wall (4)

Solution to Saturday's prize puzzle on Saturday March 16.
Solution to yesterday's prize puzzle on Monday March 18.

INTERNATIONAL CAPITAL MARKETS

Spanish prices show sharp fall

By Richard Lapper in London and Lisa Bransten in New York

Spanish bond prices fell sharply yesterday, with investors disappointed by the narrowness of the election victory achieved by Mr José Maria Aznar and his centre-right Popular Party. The sell-off in Spain contrasted with a recovery in other markets, following a bounce in the US market on Friday and renewed hopes of interest rate cuts in Germany, France and the UK.

"The weakness in these markets has been overdone. Investors realise that the economic numbers argue for lower interest rates," said Mr Stuart Thomson, chief international economist at Nikko Europe. "We are turning bullish on these markets and are looking for a return to the highs in the next couple of weeks."

GOVERNMENT BONDS

■ Spanish bonds opened lower and lost further ground in early trading. On Meff, the March 10-year futures contract sank to a low of 93.76 in mid-morning before recovering later in the day. It settled at 94.52, down 1.76. In the cash market the 10-year yield spread over Germany widened by 32 basis points to close at 363 points, sharply reversing the trend of the past month.

The narrowness of Mr Aznar's electoral majority – his party will control only 156 of the 350 seats in the Madrid parliament – and the fact that the PP will have to rely on support from minority parties disconcerted investors, triggering a rapid sell-off by both foreign and domestic investors.

But analysts are optimistic that the worst may already be over. Mr Henrik Lumholdt, chief economist at Bank of America in Madrid, said the markets had been discounting a much clearer triumph for the PP and the reaction had been "totally understandable".

Pointing to positive economic fundamentals and the likely continuity of government policy, he said: "We have seen the whole or at least 80 per cent of the sell-off". Even if new elections were declared, the spread would be unlikely to widen beyond 400 basis points, he added.

Indeed, there are some signs that investors are already spotting good buying opportunities. "We think this is a good opportunity to switch," said Mr Paul Meader of Matheson Investment Management.

■ Many investors switched out of Spain into Italy, helping the lira to reach a 13-month high against the D-Mark. Hopes of good news on the inflation front – February CPI data are due tomorrow – also provided support.

On Liffe, the March futures contract raced ahead, settling up more than a point at 111.48 before climbing even higher in APT trading. In the cash market, the 10-year yield spread over Germany narrowed by 9 basis points to 410 points.

■ Positive fundamentals provided firm support for the German market. Hopes of interest rate cuts helped the shorter end of the curve, with the 1 basis point fall in yields of benchmark 10-year bunds contrasting with a 9 basis point fall in the two-year area.

The March 10-year settled at 97.97 on Liffe, up 0.16, and rose further in APT trading. The markets are focusing on an expected rise in pan-German unemployment when figures are announced tomorrow. Nikko Europe's Mr Thomson said the figures should trigger a cut in the discount rate, possibly at the end of the month.

■ UK government bonds made impressive gains, shrugging off stronger than expected M0 money supply figures. Again, expectations of interest rate cuts were responsible, with a ¼ per cent reduction anticipated later this week.

Yield spread

Spain over Germany (basis points)

Source: FT Extel

In the cash market, yields on 10-year gilts fell by 5 basis points, while yields on the 7¼ per cent 1998 dropped by 11 basis points. The 10-year yield spread over bunds narrowed by 5 basis points to 160 points. On Liffe, the June long gilt gained ⅞ to settle at 107⅞, while June short sterling closed at 94.19, up 0.09.

■ The Bank of France chose to leave its intervention rate unchanged, disappointing some traders. Even so there are expectations of a cut on Thursday. OATs made progress, with yields falling 1 basis point to 6.55 per cent. On Matif, March 10-year futures settled at 121.88, up 0.18. March Pibor closed at 95.61, down 0.01.

■ US Treasuries were mixed in thin trading early yesterday as longer-term bonds gave back some of Friday's strong gains while shorter-term issues managed to add to those gains.

Near midday, the benchmark 30-year Treasury had given up ¼ point of the more than 1¼ point advance made in late Friday trading, bringing the price to 95⅛ with the yield at 6.366 per cent. At the short end of the maturity spectrum, the two-year note was up ⅛ at 99⅞ to yield 5.226 per cent.

There was little reaction to figures released on personal income expenditure for December and January, in part because they were so old. Opinion was divided on the significance of the personal income expenditure figure, which fell by 0.5 per cent in January, its biggest drop since August 1992.

Economists at Deutsche Morgan Grenfell/C.J. Lawrence said that although the weak figure was overshadowed by strong car sales in February, the weak labour market would depress consumer spending.

But Mr Joseph Liro of CIBC Wood Gundy attributed the weakness to January's blizzards and said he expected strong gains in February to offset the January weakness.

Activity was light as traders waited for a clearer picture of the economy to emerge from this week's round of economic data, which will be capped by Friday's important figure on February unemployment. Economists are forecasting a rebound, with the creation of 297,000 jobs after January's drop of 201,000.

■ Australian bonds raced ahead following the victory by the Liberal-National party, on the belief that the incoming administration may pursue a tighter fiscal policy. In the cash market, the 10-year yield spread over US Treasuries fell by 21 basis points to 237 points. The spread has fallen from a peak last month of 280 basis points and some analysts say it could drop to 200 points.

■ The US Commodity Futures Trading Commission has issued a "no-action" letter permitting the DTB, Germany's futures and options exchange, to become the first non-US exchange to install electronic trading terminals in the US, writes Conner Middelmann.

This will allow trading of DTB futures products in the US by principals as well as customers of DTB member firms that are registered US futures commission merchants. The futures to be traded include those on long-term German government bonds, medium-term government bonds and the DAX index of Germany's top-30 blue-chip stocks.

European banks climb Brady bond league table

By Richard Lapper

European banks have increased their share of the market in Brady bonds and other distressed sovereign debt.

A survey by Emerging Markets Investor, a trade publication, shows that J.P. Morgan of the US is still the biggest player in the market, followed by three other US banks.

However, a number of European banks have gained ground. ING Barings increased its turnover by 22.8 per cent to $113bn in 1995; Banque Indosuez of France showed an increase of 50 per cent to $60bn; SBC Warburg rose by 87.5 per cent to $45bn; and ABN Amro, the Dutch bank, expanded its business by 48.3 per cent to $43bn.

Overall, volumes traded by the top 20 houses fell by about 20 per cent in 1995, largely as a result of the biggest upheaval in the market since the early 1990s. The Mexican devaluation in December 1994 triggered a sell-off of Brady bonds issued by governments across the emerging markets. Prices have only recently recovered and the survey estimates that across the market, traders' profits fell by between 60 per cent and 70 per cent.

J.P. Morgan, which has occupied the top position in the league table for the last three years, saw turnover in the sector decline by 7.5 per cent to $295bn.

Chase Manhattan and Chemical Bank, which are currently combining their trading books, saw falls of 32.6 per cent to $181bn and 42.4 per cent to $109.5bn, respectively.

Salomon Brothers also fell by 13.4 per cent to $153.6bn, while Deutsche Morgan Grenfell, the biggest European player, saw a 13.5 per cent fall in volume to $133.1bn.

Sweden taps dollar sector for $500m over five years

By Conner Middelmann

A more positive tone in the government bond markets brought borrowers and investors out of the woodwork yesterday, with several large eurobond offerings launched.

The Kingdom of Sweden became the second sovereign this year to tap the US dollar sector, bringing $500m of five-year bonds yielding 20 basis points over the new five-year Treasury note. Lead manager Paribas Capital Markets said overnight pre-marketing built a strong book of Asian orders, matched by more demand from European institutions.

However, other participants said the deal was aggressively priced and started slowly, especially since the market is still digesting recent five-year deals and is awaiting a large issue by SüdwestLB.

The German regional bank plans to issue $500m to $750m of five-year bonds through a negotiated offering targeted at institutional investors.

This is a clear departure from its previous strategy of launching smaller, tightly priced, arbitrage-driven deals targeted at retail investors, who are relatively insensitive to yield spreads.

The issue is expected to be launched as early as Wednesday, with price talk focusing on a spread of 17 to 18 basis points over Treasuries; it is being arranged by Morgan Stanley and SBC Warburg.

SüdwestLB's triple-A rating and implicit guarantee by the state of Baden-Württemberg "makes Sweden's Aa3/AA+ rated bonds look expensive at 20 over", one dealer said. But another noted that Germany's regional banks had been heavy issuers in the eurobond market in recent weeks and "the universe of investors for German bank paper is smaller than for sovereign issues like Sweden's".

INTERNATIONAL BONDS

The Republic of Italy was the other sovereign to tap the market yesterday, with Y150bn of 3.8 per cent 12-year bonds. Lead manager Daiwa Europe said the bulk was placed with long-term investors in Japan, including government agencies and life insurers. The 19 basis point spread over Japanese government bonds was the tightest Italy has achieved in the yen sector.

The European Investment Bank injected new supply to the Ecu sector, which is being depleted by large redemptions. So far this year, some Ecu4.2bn of bonds have been redeemed, and an estimated Ecu3bn worth are to mature in March.

The EIB issued Ecu500m of five-year bonds at a spread of 2 basis points over French Ecu-denominated government notes. It is the first eurobond whose documentation states specifically that, if European Monetary Union takes effect before the bonds mature, the issue will be redeemed in euros, the new European currency, at a one-to-one conversion rate, lead managers Banque Paribas, CDC and SBC Warburg noted.

The Inter-American Development Bank is to launch its long-planned $1bn 10-year global bond overnight in Asia. The issue is expected to be priced today at 28 to 29 basis points over Treasuries.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Kingdom of Sweden	500	5.75	99.53R	Mar 2001	0.25R	+20(5⅝%-01)	Paribas Capital Markets
Nissan Chemical Inds(a)φ	100	2.375	100.00	Mar 2000	2.25	-	IBJ International
D-MARKS							
Würth Finance Intl(b)	200	6.375	99.59R	Mar 2003	0.30R	+55(7¼%-03)	DG Bank
YEN							
Republic of Italy(s)★	150bn	3.80	100.00	Mar 2008	0.35	-	Daiwa Europe
Swedish Export Credit★	10bn	(c)	100.50	Apr 2026	0.50	-	Daiwa Europe
Swedish Export Credit★	10bn	(d)	100.40	Mar.2026	0.40	-	Yamaichi Intl (Europe)
FRENCH FRANCS							
LB Rheinland-Pfalz	1bn	6.625	99.511R	Apr 2006	0.35R	+14(l)	CCF
LUXEMBOURG FRANCS							
Deutsche Finance Neths(s)	2bn	6.00	102.30	Dec 2002	1.875	-	BGL
AUSTRALIAN DOLLARS							
Morgan Guaranty Tst Co of NY	135	8.00	101.485	Apr 2001	2.00	-	Barclays de Zoete Wedd
Bayerische Vereinsbank	100	7.50	100.825	Apr.1999	1.50	-	Hambros Bank
ECU							
European Investment Bank(e)	500	6.00	99.20R	Apr 2001	0.25R	+2(8%-01)	Paribas/CDC/SBC Warburg

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ★Unlisted. φWith equity warrants. R: fixed re-offer price; fees shown at re-offer level. a) Fixing: 11/3/96. Downward revision clause, effective 27/4/98, max 20%. b) Recommended re-offer price. c) 6.3% in A$ or 5.9% in DM or 6% in US$ at issuers option. d) 6.3% in DM, US$ or A$ at issuers option. e) Coupons and principal convertible 1:1 with Euro. l) Over interpolated yield. s) Short 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		10.000	02/06	110.9160	+1.500	8.37	8.72	8.13
Austria		6.125	02/06	97.6500	+0.300	6.45	6.61	6.13
Belgium		7.000	05/06	101.9000	+0.180	6.73	6.93	6.27
Canada *		8.750	12/05	109.4600	-0.640	7.37	7.56	7.07
Denmark		8.000	03/06	103.8500	+0.460	7.47	7.66	6.93
France	BTAN	7.000	10/00	105.6760	+0.250	5.62	5.79	5.37
	OAT	7.250	04/06	105.0600	+0.140	6.55	6.74	6.32
Germany Bund		6.000	01/06	97.9500	+0.090	6.28	6.44	5.79
Ireland		8.000	08/06	101.8000	+0.500	7.73	7.90	7.25
Italy		10.500	09/05	101.7200	+1.200	10.21†	10.47	9.87
Japan	No 129	6.400	03/00	116.5410	+0.640	1.97	2.12	1.77
	No 182	3.000	09/05	98.3960	+0.320	3.22	3.22	3.00
Netherlands		6.000	01/06	98.0400	+0.140	6.27	6.43	5.80
Portugal		11.875	02/05	113.1200	-0.430	9.62	9.59	9.20
Spain		10.150	01/06	101.3000	-1.920	9.91	9.84	9.34
Sweden		6.000	02/05	82.9550	+0.150	8.64	8.98	8.25
UK Gilts		8.000	12/00	104-00	+13/32	6.98	7.24	6.64
		7.500	12/06	98-02	+18/32	7.77	7.98	7.30
		9.000	10/08	108-19	+14/32	7.91	8.10	7.47
US Treasury *		5.625	02/06	97-17	+15/32	5.96	6.04	5.61
		6.000	02/26	95-03	+16/32	6.37	6.48	6.04
ECU (French Govt)		7.500	04/05	103.1500	+0.330	7.02	7.25	6.67

London closing, *New York mid-day. Yields: Local market standard. † Gross (including withholding tax at 12.5 per cent payable by nonresidents). Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest		Treasury Bills and Bond Yields	
Prime rate	[illegible]	One month	[illegible]
Broker loan rate	[illegible]	Two month	[illegible]
Fed.funds	[illegible]	Three month	[illegible]
Fed.funds at intervention	[illegible]	Six month	[illegible]
		One year	[illegible]
		Two year	[illegible]
		Three year	[illegible]
		Five year	[illegible]
		10-year	[illegible]
		30-year	[illegible]

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	121.88	121.88	+0.18	121.94	121.72	64,632	133,566
Jun	121.92	121.90	+0.18	121.82	121.76	12,320	27,034
Sep	120.72	120.70	+0.18	120.72	120.62	160	2,355

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Apr	Calls May	Calls Jun	Puts Apr	Puts May	Puts Jun
119	-	-	3.36	0.10	-	0.52
120	-	-	-	0.23	-	0.78
121	1.30	-	1.89	0.44	-	1.10
122	0.69	1.05	1.33	0.85	1.18	1.43
123	0.28	0.62	0.86	-	-	-

Est. vol. total, Calls 19,299 Puts 9,044. Previous day's open int., Calls 121,377 Puts 119,638.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	98.08	97.97	+0.16	98.17	97.66	121592	88403
Jun	97.26	97.13	+0.14	97.34	97.03	51552	175337

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Apr	Calls May	Calls Jun	Calls Sep	Puts Apr	Puts May	Puts Jun	Puts Sep
9700	0.69	1.03	1.24	1.26	0.66	0.80	1.11	1.94
9750	0.43	0.77	0.98	1.02	0.80	1.14	1.35	2.22
9800	0.25	0.56	0.75	0.83	1.12	1.43	1.62	2.53

Est. vol. total, Calls 17622 Puts 12470. Previous day's open int., Calls 251341 Puts 158309

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	110.97	111.48	+0.80	111.77	110.55	37427	23709
Jun	110.55	111.05	+0.77	111.33	110.15	26998	31320

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Jun	Calls Sep	Puts Jun	Puts Sep
11100	2.04	2.60	1.99	2.95
11150	1.76	2.37	2.21	3.21
11200	1.52	2.16	2.47	3.51

Est. vol. total, Calls 1479 Puts 2385. Previous day's open int., Calls 46675 Puts 42248

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	94.60	94.52	-1.76	94.90	93.76	63,486	48,579
Jun	94.00	94.20	-1.41	94.41	93.75	1,108	6,323

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	108-00	108-11	+0-14	108-16	107-28	22987	61446
Jun	107-13	107-19	+0-14	107-22	107-04	30819	91889

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Apr	Calls May	Calls Jun	Calls Sep	Puts Apr	Puts May	Puts Jun	Puts Sep
107	1-12	1-43	2-02	2-20	0-38	1-05	1-28	2-34
108	0-41	1-10	1-32	1-56	1-03	1-36	1-58	3-06
109	0-19	0-48	1-04	1-31	1-45	2-10	2-30	3-45

Est. vol. total, Calls 1473 Puts 896. Previous day's open int., Calls 38081 Puts 24000

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	90.26	90.42	+0.30	90.42	90.22	2,642	7,654
Jun	89.76	89.86	+0.28	89.86	89.76	881	1,060

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Mar	116-03	116-09	+0-06	116-09	115-29	28,857	141,266
Jun	115-20	116-21	+0-04	115-26	115-12	417,286	258,173
Sep	115-05	115-03	+0-05	115-06	114-28	467	14,308

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol.	Open int.
Mar	119.86	-	-	119.96	119.82	824	0
Jun	118.53	-	-	118.84	118.43	2171	0

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price indices UK Gilts	Mon Mar 4	Day's change %	Fri Mar 1	Accrued interest	xd adj. ytd		Low coupon yield Mar 4	Mar 1	Yr. ago	Medium coupon yield Mar 4	Mar 1	Yr. ago	High coupon yield Mar 4	Mar 1	Yr. ago
1 Up to 5 years (23)	122.84	+0.33	122.43	2.15	1.58	5 yrs	7.11	7.23	8.58	7.15	7.27	8.62	7.23	7.36	8.77
2 5-15 years (20)	148.45	+0.52	147.68	2.90	1.21	15 yrs	8.01	8.06	8.54	8.01	8.08	8.65	8.12	8.19	8.67
3 Over 15 years (9)	162.18	+0.64	161.15	2.18	2.52	20 yrs	8.12	8.17	8.49	8.09	8.15	8.65	8.20	8.26	8.79
4 Irredeemables (6)	186.12	+0.35	185.48	3.81	0.00	Irred.†	8.20	8.23	8.50						
5 All stocks (58)	143.27	+0.47	142.59	2.53	1.57										

Index-linked	Mon Mar 4	Day's change %	Fri Mar 1	Accrued interest	xd adj. ytd		Inflation 5% Mar 4	Mar 1	Yr. ago	Inflation 10% Mar 4	Mar 1	Yr. ago
6 Up to 5 years (1)	196.86	-0.10	196.66	3.15	0.00	Up to 5 yrs	2.79	2.81	3.70	1.52	1.58	2.37
7 Over 5 years (11)	185.06	-0.28	184.55	1.12	0.63	Over 5 yrs	3.72	3.74	3.92	3.52	3.54	3.73
8 All stocks (12)	185.19	-0.27	184.69	1.17	0.62							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Mar 4	Mar 1	Feb 29	Feb 28	Feb 27	Yr ago	High*	Low*
Govt. Secs. (UK)	93.90	93.56	93.05	93.31	93.13	91.04	98.34	90.22
Fixed Interest	112.14	112.01	111.82	111.91	112.15	109.68	115.23	108.77

* for 1995/96. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed Interest high since compilation: 133.87 (21/1/94), low 50.53 (3/1/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

GILT EDGED ACTIVITY INDICES

	Mar 1	Feb 29	Feb 28	Feb 27	Feb 26
Gilt Edged bargains	72.0	104.8	108.5	93.7	120.5
5-day average	99.8	102.1	100.1	102.4	103.7

UK GILTS PRICES

Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
Shorts (Lives up to Five Years)						
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Five to Fifteen Years						
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Over Fifteen Years						
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Undated						
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Index-Linked						
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Other Fixed Interest

Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

* "Tap" stock. xd Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Prospective real redemption yields are calculated by HSBC Greenwell from Bank of England closing prices.

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:10 pm on March 4

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SWISS FRANC STRAIGHTS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
YEN STRAIGHTS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
OTHER STRAIGHTS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
DEUTSCHE MARK STRAIGHTS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FLOATING RATE NOTES

	Issued	Bid	Offer	C.cpn
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CONVERTIBLE BONDS

	Issued	Conv. price	Bid	Offer	Prem.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate. C.cpn=The current coupon. CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

WORLD MOTOR INDUSTRY

Differences by region

Globalisation, customer relations and the environment are all challenges to the carmakers, writes Haig Simonian

Toyota Corolla: Japan is the harshest testing ground for the new realities of the car business

Ford Taurus: the new model. The producer is coming to terms with the need to build cars globally

The world's carmakers are learning to live with feast or famine. In Europe, the US and Japan, they face mature markets and replacement-only demand against the background of higher costs and greater competition.

Elsewhere, however, car companies are predicting a bonanza. Strong economic growth and greater confidence in eastern Europe and south America have boosted demand and prompted new plants. Buoyant demand has also triggered upward revisions in manufacturers' forecasts for south east Asia. And the world's leading carmakers continue their regular pilgrimages to Beijing as they try to persuade the authorities to bless their plans for new factories in the world's biggest untapped market.

Such wide regional differences have set the scene for the car business into the next century. Only by learning to adapt quickly and gaining the flexibility to add or cut capacity virtually at will can the industry thrive in the new circumstances.

How much carmakers suffer on the way depends on their ability to react to four themes.

● Globalisation. Rising demand in new locations is forcing carmakers to expand geographically. Sometimes, appointing a local agent is enough. More often, the creation of an independent import subsidiary and a dealer network – supported, if necessary, by a local currency finance operation – is required. And in certain cases, such as India and China, government policy and strong forecasts for demand are prompting manufacturers to form joint ventures to build cars on the spot.

The creation of new capacity in hitherto fringe markets has coincided with a re-examination of the way carmakers are organised. The internal upheavals prompted by Ford 2000 are still under way. Yet in spite of criticisms that the venture is proving more glacial in pace and more expensive than planned, Ford 2000 has demonstrated one manufacturer's recognition of the fact that its previous, regionally-based, structure was inadequate to cope with building cars globally.

The harshest testing ground for the new realities of the car business is Japan. A stagnant economy and currency turmoil have forced local manufacturers to shift production to cheaper locations abroad. Honda last year became the first producer to build more cars outside Japan than at home. Failing an unusual upsurge in local demand or fall in the yen, the others will inevitably follow.

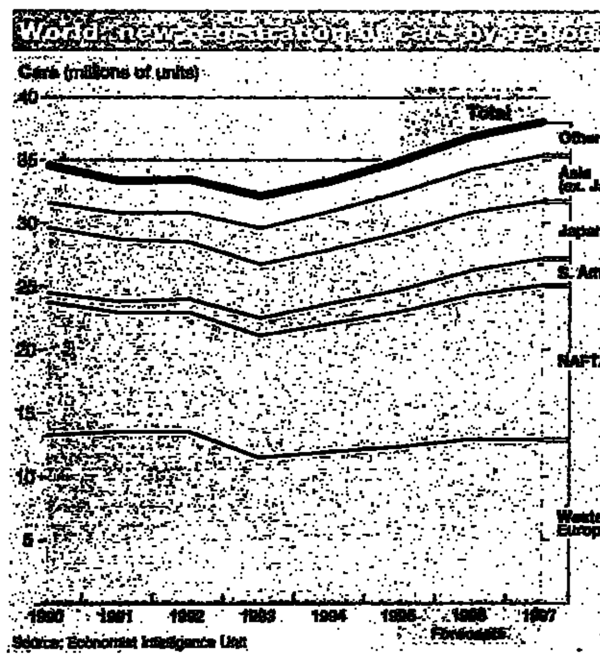
European and US car companies are watching Japan with concern. Most realise they will also have to rationalise their domestic manufacturing and dealer bases as they redistribute resources to become more global.

● Increased competition. The changes in world car demand are taking place against the background of rising competition in mature markets. Newcomers, led by the South Koreans, are entering the business. Malaysia and Indonesia want to develop indigenous car industries, while the Chinese government has made clear any new joint ventures will be expected to export as well as meet domestic consumption. In India, meanwhile, the surge in joint venture car projects has triggered speculation about where all the new vehicles will go.

Western Europe will be the focal point for the competition between established and new carmakers. The market is big and relatively open – in the sense that it is not dominated by a single company, or even a group of carmakers, such as in the US. And in spite of the European Union's "gentleman's agreement" to limit Japanese imports, some markets, such as the Benelux countries and Austria, are highly receptive to non-European brands.

The threat of lower-cost competition from abroad has forced Europe's carmakers to slash their manufacturing costs. Much of the fat has now been removed: productivity has risen through greater automation, better organisation of the factory floor and new relationships with suppliers.

European carmakers are now shifting their attention to marketing and product development. To maintain consumer loyalty, model development and replacement times are being slashed. And as the market becomes more crowded, carmakers are having to spend more on advertising and marketing. The emphasis on marketing has extended to styling, with carmakers using design increasingly to emphasise brand identities and differentiation from the pack.



Source: Economist Intelligence Unit

But such developments have pushed up marketing costs just as spending on manufacturing is being tamed. The need to stick within strict budgets for new car programmes has brought a long-overdue reassessment of the number of platforms manufacturers need for a full model range.

Conveniently, this has coincided with the introduction of more sophisticated manufacturing technologies capable of building several models from one platform – often on the same production line. The need for savings has led to drastic cutbacks in the number of platforms being produced.

On the other hand, however, carmakers have realised they need a fuller portfolio of models to meet the rising demands of consumers who are growing more fickle. The segmentation of the car market in Europe has not yet reached the proportions of Japan, or even the US, where demand has moved away from saloons and hatchbacks to niche models such as sports utilities, multipurpose vehicles and convertibles.

But it has upped the competitive stakes. Carmakers lacking the volume to fund expensive new product development programmes are under the heaviest pressure. Some have responded by burying their rivalries and creating joint ventures to build niche vehicles.

● The new circumstances are reshaping relationships between carmakers and suppliers. Globalisation and the pressure on costs has led car companies to depend on a much smaller number of suppliers for a greater volume of their business.

For the successful supplier, that opens the door to bumper contracts over extended periods. However, the new relationship also carries greater risks. Suppliers must be prepared to build plants wherever their clients require as the industry expands. Component companies are also having to accept new responsibilities for research and development as carmakers try to pass on more of the cost burden. And suppliers are increasingly being called upon to come up with entire sub-assemblies rather than individual parts.

The greater interdependence between carmakers and suppliers has risks, as well as benefits, for both sides. Contracts may be bigger, but they entail greater commitments over longer periods. Neither side can walk away at will.

● Environmental legislators are playing a bigger role than ever in the motor industry. Concern about exhaust emissions could lead to new laws radically altering demand for conventional vehicles. The Californian air standards authorities appear to have stepped back from the most immediate of their planned quotas on "zero emission vehicles", but the threat of mandatory sales levels remains.

In Europe, Germany is playing California's role in pushing through tough environmental rules. New regulations, for example, now ban the use of cars in city centres when ozone levels exceed predetermined levels.

Germany is also at the forefront of the race to improve fuel economy. A car capable of travelling 100 kms on just 3 litres of fuel is still on the drawing boards. But it is Germany's carmakers which are most likely to make the breakthrough because of the environmental pressures on them.

One day, such legislative pressure may be judged to have given the industry the shove it needed to make decisive technological advances. For the moment, however, the requirements just add to the challenges facing carmakers, with little sign of big commercial spinoffs in the pipeline.

IN THIS SURVEY

Editorial production: Anthony McDermott

■ **Design:** by Haig Simonian

Now more than doodling

Fears that rules on safety and the environment will limit creativity have been exaggerated

The days when Henry Ford could sketch a new model on the back of a cigarette packet and send it to his engineers to turn into a car have long gone.

So has the era of Mr Robert McNamara, a later chairman of Ford, who reportedly commissioned a model on the basis of a few key numbers, such as length, width, height, interior space and weight, without any reference to what it might look like.

Car design has become a serious business. Styling studios are crammed with number-crunching supercomputers and high-powered imaging software. Designers can "draw" cars electronically, fill them out in three dimensions, swivel them against a realistic background and even simulate the effect of light and shade on their curved surfaces and glass.

Yet in spite of such sophistication, many car designers fear their talents may be marginalised. A raft of new legislation has constrained the stylist's creativity by setting increasingly restrictive criteria for crash resistance and fuel economy. Manufacturers, meanwhile, have posed their own limitations by trying to maximise commercially-important factors such as interior space.

"We are all playing on a limited field. The rules impose increasing constraints, so we must be judged on ever smaller differences," says Mr Giorgetto Giugiaro, one of Europe's most prolific car designers.

The list of factors restricting design has grow steadily since the 1960s. Safety heads the agenda. New rules in Europe, the US and Japan govern a car's resistance to crashes from the front, side and rear. That affects how a vehicle looks, notably in terms of the ever-longer overhang at the front.

And, although regulations on safety and other factors are welcomed, the risk is that, "they will all demotivate the designer", says Mr Bruno Sacco, the design chief at Mercedes-Benz.

The need for a rigid safety cell to protect passengers has influenced internal design, while regulations on protecting pedestrians in accidents have affected the shape of bumpers and bonnets. International rules even dictate how high the bumpers should be off the ground.

Environmental regulations have been as restrictive. Rules to boost fuel economy have forced designers to devise cars with lower drag resistance to cut through the air more efficiently.

The attempts to reduce drag co-efficients are most visible in the steep rake of windscreens and bonnets of many of today's vehicles. The angle at which the bonnet merges into the windscreen is now so small as to be barely perceptible. The need for more slippery shapes has also affected back and side styling to ensure a clean airflow around the vehicle, and prompted the use of flush-fitting glass.

Commercial considerations have put a premium on maximising interior space within the smallest exterior dimensions. The need to come up with a commercially-acceptable package is particularly important in a small car, where space is by its nature limited.

But often, it has also restricted a designer's ability to be different. Maximising internal space limits, for example, a designer's liberty to define a car's wheelbase. The need to accommodate four adults comfortably affects the height of new cars and the rake of their front and back windows.

The increasing list of limitations has led observers to predict that cars will inevitably look more alike. Although there will always be some room to tinker, the basic shape and size of cars will grow become more similar.

Most designers broadly agree that cars could become more homogeneous. But many add that the increasing segmentation of the car market could provide a bonus to their talents.

In Japan, "niche" cars such as four-wheel drive sports-utilities, boxy multi-purpose vehicles and sleek convertibles have gained popularity at the expense of conventional saloons. The trend is also catching on in the US and could soon hit Europe.

Greater specialisation in vehicle types creates, rather than removes, opportunities, say many designers. "Every time there's a constraint, it's an opportunity to look at a problem in a different way," says Mr Art Blakeslee, the head of design at Citroën.

Many of the "niche" models unveiled recently have shown a marked flair for design. Mercedes-Benz's concept study for an All Activity Vehicle (AAV) displayed at the Detroit Motor Show in January won plaudits from the public. The study will be closely reflected in the final AAV to be produced at the company's new US factory.

> Manufacturers have given their designers even more freedom when it comes to styling the convertibles

Manufacturers have given their designers even more freedom when it comes to styling the crop of lifestyle-orientated convertibles now appearing. Fiat's curvaceous Barchetta is full of design echoes harking back to the company's sporting traditions; Rover's MGF is an extremely well-packaged mid-engined sportster.

Some of the most striking convertibles are coming out of Germany. Mercedes-Benz and BMW have attractive and relatively low priced models on the way. And Audi has given design pride of place to its audacious new TT coupé and convertible to go into production in 1999.

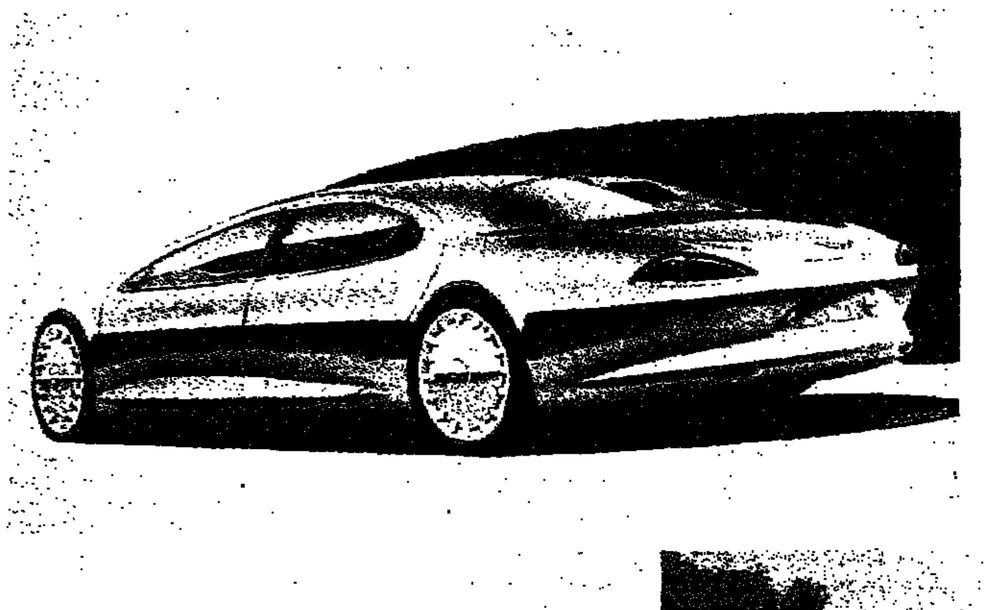
Even some of the latest multi-purpose vehicles have shown a marked design flair, in spite of their inherent boxiness. Renault, which devised the original MPV and set new design standards with the innovative Twingo compact car, is about to create a market for mid-sized "people carriers" with a variation of its Mégane saloon.

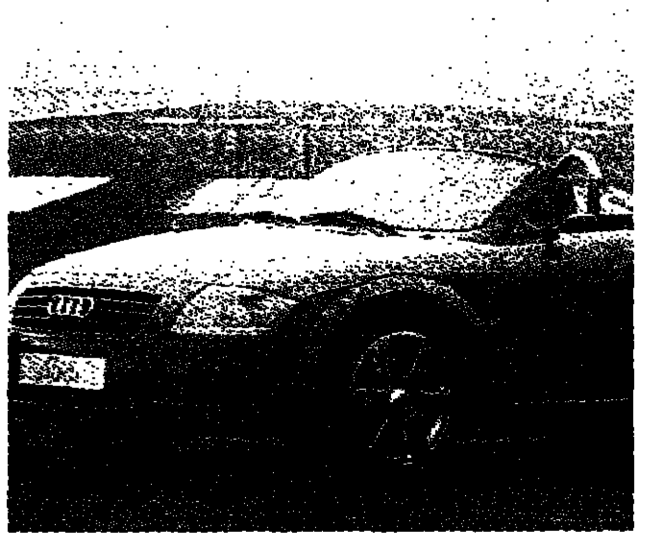
Design innovations have even been making themselves felt among the ranks of the workaday saloons and hatchbacks which form the motor industry's bread and butter. Chrysler, the smallest of the "big three" US car companies, has made a name for itself with innovatively-styled vehicles for both the niche and mass markets under its design chief Mr Tom Gale.

Manufactures have responded to criticism that their cars are becoming ever blander by focusing on styling to stamp greater individuality on their products. No carmaker would admit that its latest model looks uncomfortably like a rival's. But car companies' sensitivity is evident in the growing popularity of distinctive radiator grilles to emphasise a car's provenance.

Stressing a car's brand through its styling has been central to the design philosophy at traditional marques, such as Mercedes-Benz, BMW and Jaguar, for years. All have an immediately identifiable profile and highly distinctive radiator grilles. "Prestige brands need to let the owner show he's driving that marque," says Mr Peter Davis, the head of styling at Fiat. But some mass-market brands have started going the same way. Ford's decision to focus attention on its distinctive oval logo – which has been reflected in the frontal styling of many recent models – has not won universal acclaim. Notwithstanding the aesthetics, the latest generation of Fords sends a powerful product message.

Fiat has become more design-conscious of late, and is also starting to pay more attention to styling features to distinguish its models from the pack. The deliberately prominent rear lamp cluster on the compact Punto hatchback has been followed by unusual rear lights on the bigger Bravo and Brava range. This concentration on styling for humdrum cars looks set to continue. As the freedom to differentiate key aspects of a car's appearance steadily shrinks, designers and manufacturers will inevitably turn to the details to make their products stand out.





New designs: stylists are striving to combine compact and striking appearances, while retaining the individuality of the marques' highly identifiable profile and radiator grilles. Clockwise from below: Mercedes-Benz concept study for an All Activity Vehicle (AAV) which was displayed at the Detroit Motor Show in January; Audi has given design pride of place to its new TT coupé; *Chrysler LHX concept car* – an example of how a name is made with innovatively-styled vehicles; Renault Ludo concept car; Citroën Xanae concept car

■ **Environment:** by John Griffiths

Car numbers to double and threaten the environment

Hopes of fume-free cities are fading as finding the technology proves too difficult

The world's car population will soon reach the 500m mark, if you ignore trucks, *motor cycles and the hundreds* of thousands of *tuk-tuks*, motorised rickshaws and other vehicular oddities putt-putting so noxiously around the developing world. If China, India and the rest of the developing world motorises to the same extent as in the West, the car *population will double.*

The environmental implications of such a development, in terms of increased exhaust pollution, congestion and the costs associated with it, are enormous.

Much progress has been made, notably through the *introduction of the catalytic* converter, during the past two decades in reducing the noxious content of exhausts. But the explosive growth of the world's vehicle population during that period has meant that pollution levels in many areas remain virtually unchanged.

Thus the world's motor industry is facing a big technological challenge to avert further air quality deterioration, and governments a difficult regulatory task to ensure that the car makers rise to it.

Legislators do not take the *issues lightly. In the US in* December, General Motors was fined $11m and agreed to spend more than $35m to modify 470,000 Cadillacs that the US government said were equipped with illegal devices to defeat pollution controls. It was part of the first ever vehicle recall specifically to reduce damage to the environment.

In Europe, the outline of proposed stricter new exhaust *emissions standards for the* end of the decade have been drawn up, although despite the fact that catalytic converters already remove more than 90 per cent of pollutants from car engine combustion.

Not surprisingly, this has stirred up industry resentments. "Contrary to popular belief, air quality in Europe has improved markedly in recent years and improvements in automotive technology have made a big contribution to this," according to Mr Jacques Calvet, chairman of the Peugeot/Citroën group. "Cars marketed in the EU this year will emit between eight and 10 times fewer pollutants than those sold in the early 1980s. By 2000, 20 per cent of cars on the road (those that are old and not equipped with "cats") are likely to account for 80 per cent of emissions."

But the cost of achieving *this situation has been high*-estimated at more than £5bn for the European industry as a whole. Mr Calvet and other industry executives complain that the burden is an unfair one at a time when the industry is under severe competitive pressures. In choosing to con*centrate on further reducing* the exhaust emission limits of new cars which are already more than 90 per cent "cleaner" than cars of the 1980s, the European Commission would seem to have missed an opportunity. For it could have made a much bigger, *immediate improvement* in air quality by providing incentives to drivers to remove the minority of "dirty" older cars from the roads.

The argument is a blatantly self-serving and one which would have the effect of increasing new car sales – as *has already happened with* national scrappage initiatives introduced in France, Spain and Ireland. Nevertheless, it has a trace of validity.

There are other drawbacks to targeting new vehicle tailpipes. In terms of the total energy equation, for example, the *requirement imposed* by catalytic converters that engines operate at a fixed – stoichiometric – air/fuel ratio for complete combustion increases average fuel consumption by around 5 per cent. That translates into hundreds of millions of extra gallons consumed annually across the global vehicle population, as well as the generation of thousands of extra tonnes of carbon dioxide, the main "greenhouse" gas of global warming. To date that has been a price well worth paying because of the huge drop in pollutants the "cat" makes *possible. But, the industry* now argues, further improvements can only be marginal for an ever higher cost.

Gradually, the Commission has been changing tack. Currently, it is still intent on further diminishing exhaust emissions with tighter standards for 1999. But it is now focusing more on setting targets for air quality, with a more flexible approach on how the targets might be achieved.

Based on the findings of the Auto-Oil group, a study programme set up by the Commission in 1994, prospects are looking positive. It has suggested that even present EU exhaust emission standards could allow Europe's air quality to reach World Health *Organisation targets set for* 2010, as older cars drop out of the vehicle population.

But in one respect, the past few months have seen hopes for cities free of vehicle exhaust fumes dealt a savage blow. Late last year, California's Air Resources Board *(Carb) finally conceded that* the technological obstacles still confronting battery-powered cars are so formidable that its mandate requiring 2 *per cent of a car maker's sales* in California in 1998 to comprise "zero emission vehicles"(Zevs) was unenforceable.

> The first stage of the mandate related only to manufacturers selling large volumes of conventional cars

Under the first stage of the mandate, which related only to manufacturers annually selling large volumes of conventional cars in the state, 2 per cent of the 1998 sales of Chrysler, Ford, General Motors, Toyota, Nissan, Honda and Mazda were to have been Zevs – an estimated 22,000 vehicles. Carb still intends that a mandatory population of Zevs will be on the state's roads by early next century.

But the decision by General Motors to go ahead with launching its EV1, formerly "Impact", electric car later this year shows just how far *the Zev has still to go. The* EV1 to go on sale will use lead acid batteries weighing more than half a tonne, but providing a range of only 70-90 miles, barely enough for a commute to the office for many Los Angelinos.

GM says it hopes that more advanced batteries will be available for it by the end of the century and a collaborative US industry project, the Advanced Battery Consortium, continues to work on promising new couples such as nickel-metal hydride. These could increase range by 50 per cent or more. But such batteries have been proclaimed to be "just around the corner" for several decades. Nor is the EV1 a bargain, at a projected *$30,000-$40,000.*

The car should at least prove to be a useful guinea pig to test the recharging and other Zev infrastructure which will be needed for California's streets. And its progress will be watched with intense interest by other car makers, all of *which, no matter how* reluctantly, have their own electric cars at various stages of development. All recognise that, in the long *term,* Zevs will still be the quid pro quo for being allowed to sell their conventional cars in California's 1m-plus vehicle market.

It has also been a useful technological exercise in other respects for its aluminium and plastic composites body are being a radical exercise in weight-saving as an offset to the battery pack.

Weight-saving is an issue of mounting concern to the *motor industry overall,* because it is running fast to stand still. Airbags, doorbars, complex electronic convenience features and other fitments have all contributed to the weight of even a small family hatchback rising by more than 100 kilogrammes in *little more than a decade.*

Research into aluminium body structures which could save 30 per cent of body weight is well advanced, while Porsche has been leading a project backed by the world's leading steel producers to find a similar weight saving in steel bodies by optimising design and using thinner, high-strength steels.

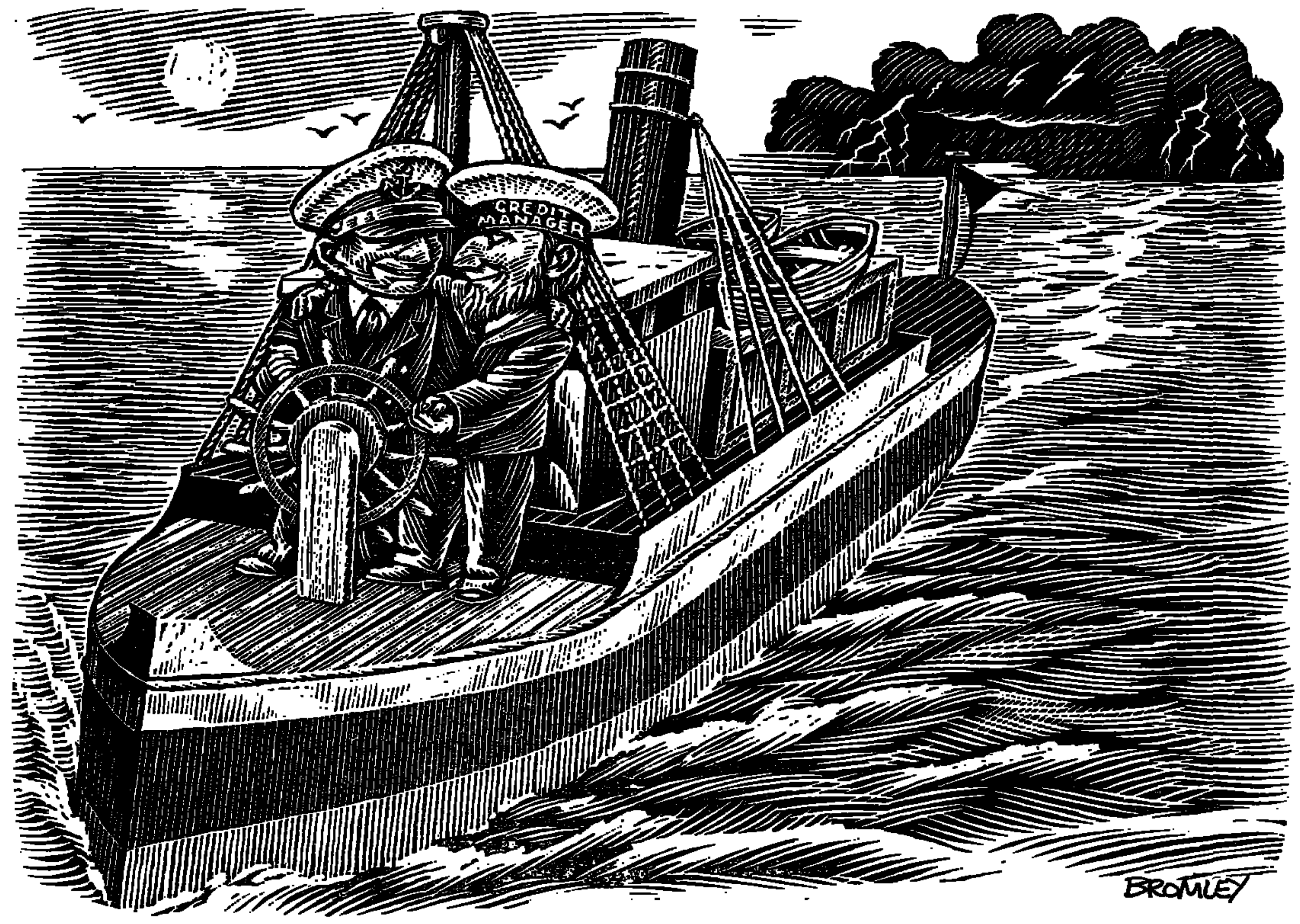
Some environment-improving *technology smacks almost of alchemy. Engelhard, the US* catalytic converter specialist, has been working with Ford testing a catalytic coating on car radiators designed to convert the carbon monoxide in air passing through the radiator into carbon dioxide and ozone – or smog – into oxygen.

The radical "PremAir" idea, in effect cleaning up a city's air simply by driving through it, does, however, have its drawbacks. It does not deal with hydrocarbons and oxides of nitrogen, linked with health problems and acid rain.

CREDIT MANAGEMENT

New status and a new lease of life

The last recession gave credit management a central role in many businesses and has helped to focus attention on debt control, writes **Jim Kelly**



Thanks to the candid admission by Mr Michael Heseltine that he was once quite skilful at stringing along creditors, the whole issue of managing debt is enjoying a period of wider public attention.

The deputy prime minister defended his actions as a businessman to David Frost, the television interviewer, in a typically forthright way: "If I hadn't delayed I would have gone bust. They (the creditors) would have got nothing."

Mr Heseltine later insisted he was still a champion of pro-business attitudes in the UK but his comments have helped focus attention on credit management at a crucial time for the sector as it meets the challenges of economic recovery.

There is no doubt that the last two recessions have helped free the credit controller from the straitjacket of debt collection. Once locked away from the sales function, credit management has now won itself a central role in many businesses.

There is a wide recognition that credit managers control one of the biggest assets many companies are likely to have – recoverable debt. Willis Corroon, the credit insurance brokers, have estimated that at any one time 40 per cent of the total current assets of a business may be represented by its debtors.

Not surprisingly, the Institute of Credit Management has gone from strength to strength. It now has 8,000 members and estimates that a further 30,000 individuals are involved in the sector across the UK, and enjoying in many cases an enhanced role within the businesses employing them.

The recovery marks a significant challenge to this new status. Freed from the need to monitor debt, many companies may be tempted to abandon the cost of rigorously monitoring the risk. But Mr William Simpson, chief economist to Trade Indemnity, the leading UK credit insurance company, believes the nature of the recent recession has in fact given credit management a new lease of life.

The unprecedented levels of company failures during the recession and the long drawn out recovery in a highly competitive economic environment have focused management attention on debt. "There has been a prolonged interest in credit management and this has made it a less cyclical product."

Traditionally, companies have gone to the wall in great numbers during the early phases of a boom. This time there has been a priority to clear debt first – one of the reasons for the sluggish pick-up in economic activity – and to rebuild balance sheets. "This has concentrated minds wonderfully on credit management."

Certainly, Trade Indemnity's statistics point to a slow but steady improvement in the payment patterns among almost 600 of its customers in the last quarter of 1995. The average value of debt per company has fallen to £117,000 in the quarter – compared to £151,000 in the quarter before and £170,000 in the quarter before that.

Payment delays beyond the due date have also fallen slightly on average to 22 – from 23 in the previous three quarters. The statistics show some interesting variations by sector – with nine the average in food distribution, and 23 among builders' merchants.

Mr Simpson also points to the deluge of credit information now available to credit managers. ICC Information, for example, provides a whole range of "symptoms" which can be used to spot potential bad debtors. These include a search of county court judgments – with 40 per cent of failed companies having such outstanding judgments.

Other signals include a search through company accounts to find audit qualifications – with 33 per cent of failed companies having "severe" qualifications. An analysis of cashflow statements can uncover those businesses which make a profit but lack cash to pay the bills.

Spotting bad debtors is one of the traditional skills of the credit manager. Mr Paul Stevenson, an independent credit management consultant and a member of the institute, believes that the industry is developing other capabilities quickly. Among them is "query management".

"I think one of the big trends today is trying to draw the credit function into a customer service role," says Mr Stevenson. This involves analysing logjams in the system and discovering why some bills are unpaid. This is often found to be due to customer or supplier questions. Answering the queries frees up the flow of cash and improves customer/supplier relationships.

Mr Stevenson recently completed such an exercise for a client and discovered that 60 per cent of outstanding debtors were not paying because of unanswered questions. While this often involves negotiation over payment, in many cases debtors are simply waiting for a credit note.

He also believes that credit departments can play a positive role during a period of expansion after a recession. "It costs a lot of money to find new customers," says Mr Stevenson. It is much better to identify those established customers, whose payment record is sound and who can provide the base for expansion.

Another element of the recovery that has helped to enhance the role of credit management is the part played by new markets overseas. "The demand for access to international risk management information has never been higher," says Mr Philip Mellor, senior analyst at Dun & Bradstreet.

But getting reliable information is not easy. Dun & Bradstreet, the business information group, complains that while Belgian companies may file promptly using a common format, the Italian and Spanish systems are less regulated, while "in Germany there is a distinct absence of company accounts".

In such an environment, companies such as Dun & Bradstreet are in fierce competition to provide cross-border data. It offers a global database with information on 39m businesses. It also monitors cross-border trade. Its records on 1.2m UK businesses are updated from a new "call centre" in Newport, Gwent, which makes 7m calls a year.

The growing power of information technology means that many players now try to offer customers a range of services based on their databases. Mr Neil Munroe, associate director of Equifax Europe (UK), says the company tries to provide a "one stop" risk assessment service on consumers and businesses.

Mr Munroe believes the sector is progressing beyond simply vetting the relationship with new customers or suppliers. He says that Equifax's data is being called upon at other points in the life cycle of the relationship – for example when a consumer wants to purchase a big ticket item or when a collection strategy needs to be decided upon to deal with a specific debt.

Companies such as Equifax are trying to develop more pro-active relationships with clients. Its "alert project" monitors information on consumers and businesses and reports back if certain criteria are triggered. "People got caught short during the recession depending on where they were in the payment chain," says Mr Munroe.

He instances, in particular, electricity suppliers: "They were often the last to find that something was going wrong as they were billing on a quarterly basis."

The hard lessons learnt in the recession appear to have given credit management a *raison d'être* even in recovery. The way in which the sector responds will decide if it has finally broken out of its anti-cyclical pattern.

■ **Late payments:** by Christopher Price

Debtors may get better deal

Plans for legislation to combat the problem are being considered by both main parties

Michael Heseltine: "I would have gone bust" Tony Andrews

The row last month over Mr Michael Heseltine's apparent endorsement of making late payments to creditors, at the same time as the government was considering legislation to combat the problem, highlights the difficulties in getting a consensus on one of the most contentious of issues for small and medium-sized businesses.

The deputy prime minister admitted he had been "quite skilful at stringing along creditors" in his previous career as a business manager. He asserted: "If I hadn't delayed, I would have gone bust. They (the creditors) would have got nothing."

Both sides in the debate seized on the admission. The Labour party strengthened its commitment to introduce statutory interest on late payments in a trade and industry policy document to be published later this year. In the meantime, Mr Jon Owen Jones, a Labour MP, is to introduce a Private Member's Bill, which will allow companies to claim interest on outstanding debts.

This view has long been supported by the Forum for Private Business, a small company pressure group. It claims that around £20bn of debt is paid late each year, and that on average its members are paid 83 days after sending out an invoice.

"Michael Heseltine's boast demonstrates that, for as long as there is no effective legal sanction against late payers, there will always be those who cynically steal credit from their suppliers," says Mr Stan Mendham, chief executive of the FPB.

Other reports have also highlighted the problem of late payment. A survey by Bradford University of 655 manufacturing companies showed that on average less than 50 per cent of invoices are paid on time.

It also found that the typical firm quoting 30 days' credit is more than likely to be paid 60 days or later after the delivery of the goods. Nearly 40 per cent of the businesses surveyed reported that their operations had been severely affected by late payments during the recession.

However, the survey also revealed that those firms citing late payment as a major business problem were likely to pay late themselves and had difficulties in obtaining bank credit and trade credit from their own suppliers.

It is this seeming contradiction that has led some organisations to oppose legislation. Instead, the Institute of Credit Management, the professional credit organisation, has argued for a more educational approach to late payment.

"Mr Heseltine's comments, however controversial, demonstrate beyond doubt why legislation for statutory interest would not work," says Mr Ted Brown, ICM's chairman. "Businesses that cannot afford to pay on time cannot afford to pay interest. Such a penalty would drive troubled companies to the wall."

In a recent policy document, the institute says research from the Association of British Factors and Discounters shows that of the five countries with the worst payment records in Europe, three – Italy, Spain and Cyprus – already have a statutory right to interest.

The institute also points out that under UK company law, a contract can include a clause stipulating a penalty for late payment. However, few companies include it because of the fear of upsetting customers and also the potentially lengthy legal proceedings to pursue any claim. In addition, where late payment is due to a shortage of funds from the debtor, interest would only exacerbate the problem.

However, supporters of legislation argue that a simple interest-bearing onus on late payments would not be the subject of corporate ill-feeling or lengthy legal wrangling. It is more to do, it is argued, with the acceptance of such a system as part of a company's normal credit management process.

The FPB envisages the Bank of England setting an interest rate at a level sufficient to hurt all companies. If incurred, the interest would be paid separately into an account which the creditor could collect over a period of perhaps several years. This would allow companies with trading difficulties to pay any interest at a more convenient time.

In tandem with this, a late payer's annual accounts would include liability for interest on late payments. This would act to encourage companies to reduce the amount of interest, which would be offset against their turnover.

The government's view has veered between the two camps. After last seriously considering legislation two years ago – and rejecting it – the government is again testing the corporate temperature on late payment legislation.

However, in January Mr Richard Page, minister for small business, told the House of Commons that the government had not received "any positive push" for legislation on late payment. One issue under consideration is the use of a statutory instrument to force companies into disclosing their policy on payment in their report and accounts. The aim is to shame businesses into becoming better payers.

Meanwhile, Mr Heseltine was not the only member of the government to be embarrassed about the late payment issue. The Labour party published figures earlier this year which showed the government owed £208m paid late to British business in 1995. The Department of Education was singled out as the worst offender. Labour claimed it settled £75m – or 5 per cent – of its bills late.

II CREDIT MANAGEMENT

■ **Credit finance in the US:** by Richard Waters in New York

The job gets bigger

Credit managers have sought to expand their roles, partly to justify their existence

Many credit managers in the US have seen their working lives change steadily during the 1990s.

"In the past, credit was its own kingdom," says Mr Mike Durrant, a researcher at the National Association of Credit Management. Setting a credit limit and chasing debts were the sole functions: the size and lateness of outstanding payments the only issues of concern.

Now, adds Mr Durrant, "many companies are moving [credit management] into the customer service area. It's forcing credit managers out of their box." In the process, it is also broadening the skills that US credit managers need to develop and raising new issues about the way the function is managed.

One reason for this shift has been the fad for "re-engineering" which has swept across US industry in the 1990s, stemming from the drive to cut costs. Combining functions which used to exist separately, such as credit management, customer service and sales, has enabled many companies to reduce staff numbers.

Credit managers have themselves sought to expand their roles, part of a process of justifying their existence. "If we are only seen as bean counters, collections people, we'll be out of a job," says Mr Dan Wolner, national credit and customer services manager at Harmon Glass, the second biggest US supplier of replacement windshields for cars.

There are other, positive reasons for this reorganisation of the credit function. By bringing credit management and sales closer together, many US companies claim to be using credit decisions more creatively to win sales.

As Mr Wolner, writing in a recent issue of the US trade magazine Business Credit, comments: "For Harmon Glass, maintaining profitability and protecting declining margins meant listening to customers and studying market forces."

These are pressures being felt across US industry. Resistance to higher consumer prices, together with higher commodity prices, have put the squeeze on profit margins up and down the production and distribution chain.

That has forced many companies to work harder to understand their customers' businesses. And credit managers, who have always been one of the main points of contact between a supplier and customer, have come to play a more important part in that process.

One result of this merging of credit management with customer service has been a re-examination of the way performance is measured. The traditional yardstick for the effectiveness of credit managers – days' sales outstanding, or DSO – is a simplistic measure which does not capture the full contribution a credit department makes.

Yet, despite a widespread recognition of the weaknesses of DSO, most companies "are not moving away from it very quickly," says Mr George Gallinger, an associate professor at Arizona State University who has worked on developing more effective performance measurement systems.

> Companies have had to work harder to understand their customers' businesses

A second force that is revolutionising the way credit managers do their jobs in the US is technological change. At one level, this has speeded up the credit approval process, thanks to the availability of credit information online.

"It has greatly increased our ability to respond quickly," says Mr David Young, vice-president of corporate credit at Russell Corporation, the biggest manufacturer of athletic clothing in the US. "Now, if our customers order something in the morning, they want it [shipped] that afternoon." Companies that can't respond quickly risk being left behind.

Better availability of credit information, and software to model credit risks, has also enabled companies to push more credit decisions out into the field, rather than centralising all decisions in head office.

"Collectors are increasingly required to set credit lines in their own parts of the country," with discretionary limits typically of $50,000-$100,000, says Mr Durrant. Better information makes it easier for these people to do their job – and for head office to monitor their performance.

Though becoming increasingly common in companies whose geographic reach spans the country, this decentralisation is by no means a universal trend. "There are still big differences of opinion," says Mr Young. "Centralised, you can get by with fewer people."

Another notable technological development is common throughout business life in the US: the spread of voice-mail. While enabling companies to cut costs, this has been a mixed blessing in such areas as credit management, where there is a high level of contact with customers.

Mr Young, who prides himself on picking up his own telephone rather than leaving it to voice-mail, says technology should be enhancing contact with customers, not getting in the way. The goal, he says, is "increased customer service, and getting back to basics".

CASE STUDY **US retailing**

Stores may face a shake-out

Insolvencies have become a steadily decreasing concern among US credit managers as the 1990s have progressed – unless, that is, your customers happen to be retailers.

During the first half of 1995, around 36,000 bankruptcies were reported in the US, accounting for some $12bn of liabilities. While that represents only a 1 per cent decline in the number of cases from the year before, it is also a 12 per cent fall in the amount owed to creditors – a sign that insolvency has increasingly been a problem afflicting smaller, often start-up companies.

The retailing sector, though, stands apart. A spate of bankruptcies among department store chains, including the upmarket Barney's, has sent tremors through an already nervous group of suppliers. And that is even without the financial traumas of Kmart, the giant discount retailer, which seems to have staved off the threat of insolvency – at least for the time being.

"The problem is simply too much square footage," says Mr David Young of Russell Corp. "We have enough retail space for 1bn people – the trouble is, we've got only 250m." The result, he predicts, will be "a shake-out over the next five years".

Retailers are currently raising the hackles of credit

> 'The problem is simply too much square footage'

managers for other reasons as well. One of the biggest complaints: that many use any excuse to deduct amounts from payments to suppliers. Rather than an occasional event, some now apply such deductions as a matter of course. "In some organisations, it's a profit centre – especially in some department store chains," says Mr Mike Durrant of the National Association of Credit Management. RW

■ **Insolvency reform:** by Sydney Paulden

Doubts are cast on moratorium

Banks and others are worried that a suggested period of 28 days' grace could be abused

There has been a major shift in attitude to the government's proposals last April to give smaller companies a 28-day moratorium before debtors move in to close them down. The plans were originally well received, because there was a general consensus that we had to progress from a frantic scramble for assets to a "rescue culture". The government limited the new proposal to companies that qualified under two of the following three criteria: a turnover of less than £2.8m; a balance sheet total of less than £1.4m; a workforce of less than 50 employees.

It had been felt that in the fight to get a share of anything of value in a failed small company, many businesses were being scrapped that could well have had a future. This would impact on the number of people that could be kept in work, recognised by everyone as a prime requirement.

However, during the period of consultation, more comments have been made on the impracticalities and dangers inherent in the plan than on the benefits it might bring.

The banks are particularly concerned, because it is suggested that they should give five days' notice of any intent to appoint a receiver. The Society of Practitioners of Insolvency, whose members include all the big accountancy firms, has serious reservations. And companies that collect debts on behalf of large numbers of creditors are beginning to be very pessimistic.

Two main themes are common to all the criticisms. There is the fear that in those cases where poor management or even fraudulent practice has been the cause of a small business's failure, leaving the same directors and managers in charge for a further 28 days could simply mean a further wastage of assets that might otherwise be salvaged to the benefit of the business's creditors.

> It could simply mean a further wastage of assets that might otherwise be salvaged

Secondly, there is real concern for any new suppliers to which the failing company's managers might turn for goods and services on credit.

Mr Phillip Oppenheim, company affairs minister, believes that he has foreseen these problems and built into his proposals the idea of a supervisor being in place during the moratorium. His view is that the moratorium would only go ahead on condition that the supervisor sees a "reasonable prospect for success" during the 28-day stand-off.

The banks' view is that they have always kept a close eye on client companies that have begun to meet financial difficulties and that it has been their practice only to impose a receivership when they see no prospect of a company trading its way out of its problems.

The bankers foresee many situations where the very concept of "reasonable prospect for success" becomes a breeding ground for future litigation. On the one hand, creditors could argue that the decision to call for a 28-day moratorium was the result of misjudgment and cost them money when assets became further dissipated.

On the other hand, the directors and workforce of businesses put into receivership without a moratorium could argue later that there had been a good case for a 28-day breathing space that might have saved their livelihoods.

The insolvency specialists are equally worried, especially from the point of view of their own reputations, on which they stand or fall as dependable people to call in to handle business failures.

Mr Roy Welsby, a senior insolvency partner at Grant Thornton, believes that self-respecting practitioners would shy away from a situation where they are appointed as a supervisor, presented with a failing company, but powerless to intervene if the management of that company continues to make mistakes for a further 28 days to the detriment of the creditors.

He is convinced that the finger would be pointed at the supervisor who, in his opinion, would have no powers to avoid serious errors or even wrongdoing. If he had, he argues, then the situation would be indistinguishable from a receivership, where the insolvency expert takes control of the business and attempts to organise the maximum benefit for all concerned. "It has always been our objective," he insists, "to salvage everything worthwhile. Leaving incompetent managers in charge would not exactly improve the situation."

Intrum Justitia, Europe's biggest debt collection group of companies, sees little benefit to creditors in the new proposals. "In our view," says Mr Chris Dixie, a senior manager, "when

> 'Leaving incompetent managers in charge wouldn't exactly improve the situation'

it has become clear that a business is on the point of failure, it has many debts that are 90 or 120 days overdue and creditors would become frustrated if there were to be a further extension of credit during the period of the moratorium.

Intrum Justitia describes the moratorium as "prolonging the agony", as it assumes that sensible, honest managers of a business would have been aware of the approaching disaster for some time before the event and would have had ample opportunity to propose new ideas and ask for co-operation from their creditors.

"It could be construed," suggests Mr Dixie, "as giving rogue directors an extra opportunity to dispose of assets to their own and not the creditors' benefit."

Mr David Coates, a director of the CCN Group, specialists in reporting on the financial status of businesses, is very concerned at the possible damage to companies that give credit to failing businesses during a moratorium.

"We have to assume," he says, "that existing suppliers and lenders will be informed of a moratorium. Many may refuse to increase their exposure by supplying further goods and services on credit. The affected company will therefore turn to alternative suppliers as it bids to survive with a rescue scheme."

He suggests that the new suppliers would have to be informed and the obvious way might be for Companies House to be alerted that a moratorium is in place and for credit reporting agencies to pass on that information as a "time critical document" and flagged to its clients.

"However," he adds, "vital days would be lost by the time the information is processed through Companies House. Alternative means might be to list a moratorium in the London Gazette and to inform credit agencies directly."

The industry as a whole has shown itself keen to support the government in its attempts to create a "rescue culture" and give small businesses in particular every opportunity to overcome temporary difficulties to the benefit of society as a whole. However, few specialists seem to view the 28-day moratorium as the answer.

■ **Insolvency Service reform:** by Sydney Paulden

Privatisation move awaits go-ahead

The plan – the Official Receiver would cede responsibility in a key area – is risky

The Insolvency Service's delay in announcing a decision on privatisation bids has been interpreted by many as a bad omen.

The service is part of the Official Receiver's Office, which is an executive agency of the Department of Trade and Industry and steps in when individuals go bankrupt and companies fail. It deals with over 60,000 company failures and personal bankruptcies a year and has a total staff of about 1,750. It has always been seen as carrying the responsibility for maintaining confidence in the framework of business as a whole, especially in tackling those situations where there is even a suspicion that insolvency may be the result of fraudulent practices.

Since July 1993 it has been considering the possibility of contracting out to the private sector the case administration work relating to bankruptcy and compulsory liquidation cases. In July 1994, it set about analysing the likely costs and benefits and the mechanism for handling privatisation.

The work of the Insolvency Service was seen by the DTI to encompass two distinct areas of responsibility. On the one hand, there was the task of taking control of the assets of a failed business or person and

> A suspicion that insolvency may be the result of fraudulence

disposing of them to the maximum benefit of the creditors. On the other hand, there was the investigation and litigation that might follow, if any possible fraud or wrongdoing came to light. The DTI decided that it would be necessary for the Official Receiver to retain the second area of responsibility, but that the first area could better be taken over by the private sector.

In 1995, it invited six companies to bid for all or part of the work to be hived off, estimated at a value of £30m a year.

The deadline for bids was December 4 1995, with a view to handing out contracts to begin by May 1 1996.

The bidders tended to split into two sets of three – those who were interested in taking on the work for the country as a whole – and those that would primarily be interested in handling the work essentially in their own region. They included four firms of chartered accountants, Byrne Associates, Jacksons, Larking Gowan and Neville Russel. The other two bidders were providers of managed services, namely ITNet and Capita Managed Services.

ITNet is part of the Cadbury Schweppes Group. Capita has already taken on a number of contracts for the government, such as the management of written examinations for the revised system of driving tests. It is assumed that the management companies would take over much of the existing structure and staff of the Insolvency Service and manage it on a private basis. The firms of accountants are experienced in insolvency casework and would obviously expand their existing facilities.

The DTI found itself obliged to announce that it required a further month after the December deadline to obtain clarification on a number of points from the three bidders still in the frame for the contacts. The suspicions within the insolvency sector are that the three bidders looking for regional work have been eliminated and that the government is keen to ensure that the remaining three knock their offers into shape to make it possible for the DTI to accept them.

Mr Keith Ellis, a spokesman for the Institution of Professionals, Managers and Specialists (IPMS), says that his union is strongly opposed to the privatisation plan. It will, he suggests, cost about 1,000 jobs. From the public's point of view, he insists that privatisa-

> The unions are critical of the mechanics of paying private contractors

tion will seriously undermine confidence in the way business is run in the country.

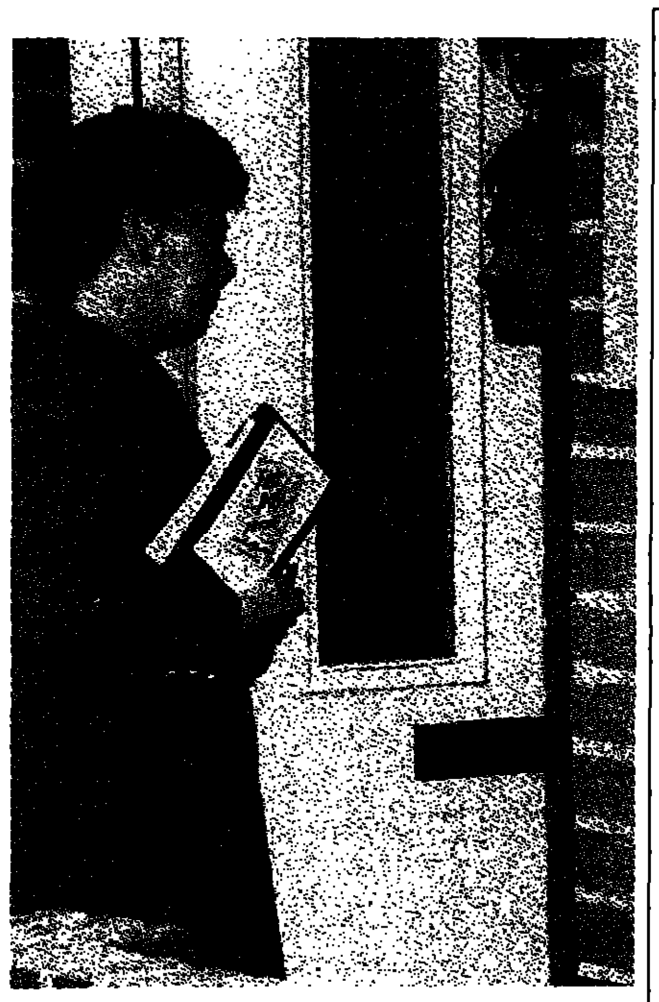
"The DTI," he says, "is totally overlooking the value of the first contacts that are made with the directors and premises of a failed company." Currently, he maintains, experienced inspectors get an immediate feel for the case at the point where the managers of a failed business are at their most vulnerable. He argues that if the two areas of responsibility are separated between the private sector and the Insolvency Service, then there could be a considerable delay before the service is made aware of any suspicion of wrongdoing. By that time, he says, the managers would be on their guard and much of the vital documentation required for a full investigation and eventual prosecution might have disappeared. "An investigator would then have a difficult task in piecing a complete story together."

The unions are also highly critical of the mechanics of paying private contractors for the service. It appears that there will be a fee per case. To maximise profitability, a private company would wish to clear all outstanding matters in a case as rapidly as possible. There would be a disincentive to dig further to investigate possible wrongdoings in order to hand it over to the Insolvency Service for possible prosecution of the directors.

In the current system, examiners from the Insolvency Service work on a case of failure from beginning to end. They use their skills to assess whether or not assets have been wrongly siphoned off to the benefit of the directors before the collapse of a business and they retain all forms of evidence that might be of value if a prosecution is brought at a later date.

Under the new privatised system envisaged by the DTI, the tracks might have grown cold before the service is informed of the suspicions and this could benefit fraudsters and be to the detriment of the creditors.

Stoy Hayward, the firm of accountants and insolvency practitioners appointed by the DTI to report on the privatisation plan, made clear its reservations on this very point: "The private sector would have an important role in setting standards and spotting fraud before handing work over to the Official Receiver's Office. If this interface did not work well, future investigations would be impaired."



The old foot-in-the-door, bully boy approach to collecting debts is becoming a thing of the past. Special skills are required to assess the financial situation of debtors, the value of assets at their disposal and their ability to settle a debt immediately or in instalments.

Ms Michelle Scott, director of operations at Intrum Justitia, the debt collection and credit management group, says that a significant number of her agents are women. The size of the force is being increased from 1,500 to 1,800 and candidates with different backgrounds for different assignments, such as commercial collections, consumer debts, repossessions and mortgage repayment arrears, are being sought. "There is no better way of collecting data about a debtor than through a face-to-face meeting," she says.

The company's field agents collect more than £18m of debts a year.

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CASE STUDY Reject Shop

A deal that went awry

When Upton & Southern, the Middlesbrough-based retail group, reports its interim results later this month, the figures should be free of the damaging impact of Reject Shop, the disastrous acquisition which went awry last year.

Last May, just over a year after it acquired the business, Upton & Southern told the board of Reject Shop that it could no longer provide the debt-ridden and loss-making subsidiary with funds.

Reject Shop, which had liabilities of £8m, asked its bankers to put it into receivership. For most of its time under Upton's ownership, it had suffered financial and legal problems.

Without the intervention of Grant Thornton, the receivers, Upton's own livelihood may have been at stake. "It was haemorrhaging cash and it was obvious to me that unless we could stop that, it would bring down the parent company," says Mr Ron Trenter, executive chairman who joined the board some two months before the receivers were appointed.

Upton was also vulnerable because it was potentially liable to guarantee a £500,000 bank loan to Reject Shop.

Within a month of being called in, Grant Thornton was able to sell 10 of the beleaguered chain's 31 shops and the trademark name to a consortium led by Mr Jeffrey Gould. Ironically, Mr Gould was the chief executive who led Upton's £2.5m bid for the loss-making Reject Shop in 1994. He left Upton about two months before the receivers were appointed at the subsidiary.

When he joined Upton, Mr Trenter, a former chief executive of Texas Homecare, believed it could be turned around. He quickly identified the problems at Reject Shop: "Overhead costs were too high and only a third of the shops were making any profit at all."

Before Mr Trenter's arrival, the group had raised £5.4m from a placing and open offer in November 1994, in an effort to stem the damage. It had also alleged that Reject Shop's financial and trading position was materially worse than represented when it was bought, and took legal action against five former Reject Shop directors for misrepresentation. The directors have denied the allegations.

As soon as Mr Trenter joined the Upton board, it began negotiations with its bankers over restructuring of Reject Shop. It considered various rescue options, including a creditors' voluntary administration, which would have put debts on hold while the group tried to sort out the business.

Mr Trenter said the bankers, led by National Westminster Bank, would not agree to such an interim move, while Reject Shop was trading at its banking limits. "Everything was coming to a stand-still," said Mr Trenter. "We had to be very careful that the company was not trading illegally. I had a lawyer by my side at all times."

The board's options seemed to be exhausted. "The more help and advice you need, the more it costs," says Mr Trenter. "It was a perpetual disaster."

The receivers swiftly invited bids for all or part of the business. Mr Gould made the best offer. He says the Reject Shop group is now running profitably.

The purchase price, undisclosed but estimated at £2m to £4m, could not cover all of the business's debts. Some preferential creditors, such as the Inland Revenue, were paid, but unsecured trade creditors were "unlikely to get anything".

While creditors of Reject Shop who have lost out may be nursing their wounds, their pain has saved a greater disaster. "In economic terms, if 10 per cent of a group goes into receivership rather than 100 per cent, that is the price of survival of the 90 per cent left and sometimes that is the hard bullet that has to be bitten," says Mr Steve Hill, technical insolvency partner at Coopers & Lybrand, the accountants.

The receivers were also left to try to sort out compensation for customers who had made deposits with the business. "We were dealing with thousands of depositors," says Mr Scott Barnes, partner at Grant Thornton.

Customers, mostly for furniture, had made deposits with the Reject Shop, but in many cases, the goods had not yet been delivered. "Where we were able, if the goods were identifiable either within the shops or within the warehouses of the suppliers, then we tried to protect the position of the depositors, but where the goods were not available, regrettably, they had unsecured claims and could not do anything about it," says Mr Barnes.

In a financial restructuring last August, National Westminster Bank released Upton from £400,000 of its liabilities in connection with Reject Shop. The group also raised £1.55m net through a placing of 1.7m convertible preference shares at £1 each.

In the year to July 29, the group posted losses of £9.59m on turnover of £30.4m. The deficit incorporated the £3.27m trading losses of Reject Shop up to its receivership, a £6.06m write-off of Upton's investment in the subsidiary and about £250,000 for resolving other known contingencies and obligations.

Mr Trenter hopes that, with the announcement of the group's results this month, he can leave the shadow of Reject Shop behind. "By putting Reject Shop into receivership we saved Upton's business and it will now progress forward," he says.

Motoko Rich

■ **The rescue culture:** by Jim Kelly

Good idea, but can it work?

There is disquiet over an insolvency tool which shifts the balance of power so markedly away from the creditor

The government is discovering that it is a lot easier to talk about a rescue culture – a climate in which businesses do not fall prey to jittery creditors – than actually to deliver reforms which can work.

Meanwhile, the insolvency profession largely believes that commercial logic can produce a rescue culture as long as the professionals are not rigidly constrained within a web of new government regulations.

There is little doubt that Mr Kenneth Clarke, the chancellor, takes a personal interest in the issue. His conviction, that the banks often remove support too quickly from ailing companies, has helped fire the current reforms.

He has used the high profile provided by the Budget to preach the word. As early as December 1994 he was telling the Commons: "During the recent recession businesses, particularly small businesses, were too often being closed down by their creditors and jobs lost before rescue options had been properly explored."

The Department of Trade and Industry is still working hard behind the scenes to find *a way of introducing its idea* for 28-day moratoria for businesses in financial trouble during which directors can put together a rescue plan.

Under the new proposals, the debtors in effect stay in possession of the assets, while the creditors are barred from forcing a closure. The government plans have been met with unease among groups such as banks, while insolvency practitioners are worried about their powers and responsibilities as supervisors.

This idea, reminiscent of the *US Chapter 11 principles*, has been broadly welcomed by the Society of Insolvency Practitioners but has also met with a *raft of technical criticisms*. Essentially, there is disquiet over an insolvency tool which shifts the balance of power so markedly away from the creditor.

In recent weeks fresh evidence has emerged that the DTI, from its Insolvency Service arm, is still serious about trying to use the law to help engender a rescue culture. Private papers have been circulated outlining a plan to help more businesses go into administration – rather than receivership.

The difference between these two procedures is crucial. Administrators, in the words of insolvency experts Cork Gully, have as their objective "to rescue the business or maximise asset values". In contrast, the receiver's role is to "recover debt and to achieve a going concern sale where possible".

Of course, a sale may preserve the business if not the company – but administrators' responsibilities give them a unique place in the rescue culture. The government's idea is that courts would be able to put an administrator *in place of* a receiver where "it is clear" that the security of a charge-holder – such as the bank – is not at risk.

This, again, is an idea which will receive widespread support in theory but throws up a range of problems in practice. It appears to require a court to value a business in order to be clear that assets exist which can cover the bank's security if the administration fails.

If the procedure is not watertight, there is the obvious possibility that it could make credit more expensive to reflect the perceived risk taken by the banks. Mr Scott Barnes, head of insolvency at Grant Thornton, asks: "What's the attitude of the banks going to be when their main weapon of recovery is taken away? This *needs some careful thought* – although we are all in favour of the broad idea."

But the government's determination to become identified with the rescue culture – even in a period of relative recovery – should not be underestimated. For example, within recent days it has signalled that the UK may be on the point of signing a convention allowing insolvency practitioners to operate across European borders.

The EC Convention on Insolvency Proceedings has been a dream for 30 years – always stymied by the opposition of one or more of the member countries. The once ambitious framework has been toned down and, after consultation, the UK may now be ready to sign. *If Ireland and the Netherlands* also back the idea, then the dream could be a reality. It will allow liquidators to operate across borders – protecting creditors' rights.

> The government's determination to become identified with the rescue culture should not be underestimated

Meanwhile the rescue culture appears, quietly, to be becoming a reality. According to the latest figures from the Society of Practitioners in Insolvency – the UK's leading specialist professional body for insolvency practitioners – in 1994-95, 44 per cent of jobs were *saved compared to 27 per cent* in the previous year. In more than half the cases, excluding liquidations, the business was either restored to solvency or sold as a going concern.

Among insolvency practitioners – mostly the Big Six accountancy firms – the buzzwords for the 1990s are "rescue culture". While this reflects a real desire to help businesses before they fail it also springs from the dwindling revenue stream from traditional insolvency work as the economy emerges from recession.

Pre-insolvency work has come of age. Businesses – and more importantly the big lenders – have become increasingly aware of the advantages of "invisible rescues". The recent recession did much to promote *this transformation. While the* 1980s saw insolvency experts dealing with traditional industrial failures which could often be handled with traditional skills – allowing the business to trade and then be sold – the 1990s brought a crop of failures which needed a more creative approach.

"The failures of the 1980s were a million miles away from those of the last few years," says *Mr Colin Bird*, Price Waterhouse's head of insolvency. The size of many of the 1990s failures meant that *they often contained hundreds* of separate businesses, which were often in themselves viable.

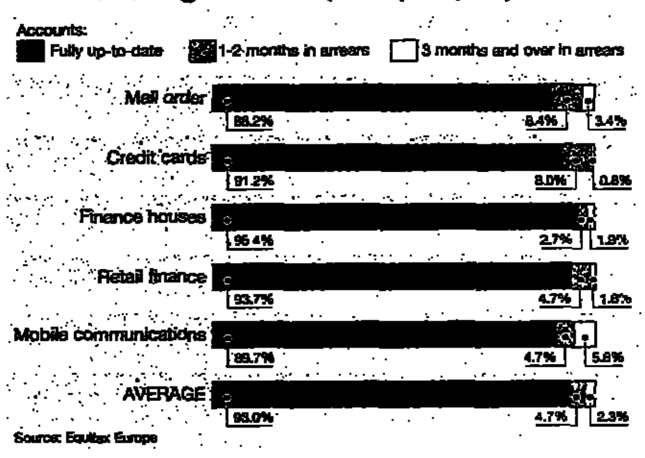
In many of these, especially where the principal assets were the employees, there was a need to avoid a formal business failure. The banks played a significant role in the new approach and by protecting their investment placed the emphasis on pre-insolvency skills.

Mr Chris Hughes, head of insolvency at Coopers & Lybrand says: "Clients have *become much more aware of* the need for specialisation. There is a need to bring together the right skills – it's a bit like conducting an orchestra." Cork Gully, now part of Coopers, has become a name reserved solely for liquidations.

Most of the Big Six now control rescue operations from a "conductor" group which can bring together various skills to suit the problems of the client. For example, Ernst & Young's is called the Restructuring and Reorganisation Service and is headed by *Mr Stephen Adamson*, the lead administrator for Canary Wharf, and one of the best known names in the *business*.

Mr Adamson offers an aphorism that should perhaps be memorised by all finance directors. It also encapsulates the marketing stance of the Big Six's new pre-insolvency culture. "A company heading towards insolvency does so at an ever-increasing rate unless, and until, the intervention of a third party."

UK finance agreements (Fourth quarter, 1995)



Source: Equifax Europe

■ **Accounting reform for small companies:** by Jim Kelly

Frizzy may make it easier

If adopted, the new standard could become binding after consultation

Small and medium-sized companies have always com*plained about the burden of* drawing up comprehensive accounts but radical deregulation has been hampered by fears that users – and especially the retail banks – would suffer as a result.

But now reform is in sight, in the shape of the Financial Reporting Standard for Smaller Enterprises, or "Frizzy". If officially adopted by the Accounting Standards Board, the new standard will revolutionise the financial data upon which creditors rely.

Nearly 900,000 small companies would be freed from having to comply with existing accounting standards under the published last December – *in return for following a spe*cial code of their own.

Experts involved in the project believe that costs for small *and medium-sized* companies could be cut by a total of more than £50m a year. The new standard, which would be issued alongside those for larger enterprises by the Accounting Standards Board, would replace more than 600 pages of rules with just 40.

The Frizzy has been put forward by the working party set up by the accountancy profession at the request of the ASB – the UK's official *financial* reporting watchdog. If the proposals find support, a draft of the Frizzy will be passed to the ASB. *It has the power* to turn it into a binding standard after consultation.

It would not be compulsory, but companies could not mix the two systems. The move is likely to be welcomed by the government and business leaders for helping to cut the estimated £5bn cost to UK business of compliance with official regulations.

But two concerns are likely to have emerged during the consultation period. The main one is that companies not covered by the exemption may begin to press for further flexibility in the UK financial reporting regime – and critics believe this could lead to less assurance for stakeholders such as creditors.

The users of small company accounts, such as the banks and tax authorities, will also want the new code to be strict enough to safeguard their interests. Although most powerful lenders have considerable access to small company finan*cial* data – on demand – accounts still play a role in assuring investors.

The key to the potential success of the Frizzy is that it is being portrayed not only as a deregulatory measure but also as a positive improvement in the quality of information. Less is not, necessarily, worse. Mr Ken Wild, chairman of the working party and a partner at Deloitte & Touche, has said there is *widespread support for* simplification and the Frizzy will provide an "enduring solution" that can be updated.

Under the *Frizzy, small com*panies would follow the same measurement code as bigger companies, but it would be simplified and disclosure requirements would be reduced. The working party's report, "Designed to Fit: A Financial Reporting Standard for Smaller Entities", will cover companies entitled to make use of exemptions under the Companies Act.

To qualify, a company has to meet two of *three criteria* – turnover of less than £2.8m, fewer than 50 employees, or less than £1.4m of assets. Companies in which there is a "public interest" are not included. Other enterprises – such as partnerships – could also make use of the Frizzy.

The Department of Trade and Industry recently estimated the burden of complying with company law and stan*dards for a company with £1m* turnover at between £1,800 and £2,500 and for one with £2m at £3,000 to £5,000.

"While the Frizzy can be seen as lifting the burden – and there is an element of that – it is not the reason we are *doing* it. *We are doing it* to make the accounts more understandable."

For example, the Frizzy would require companies to show the cost of leases on a straight-line basis rather than embroiling a small enterprise in the complex calculations *required of SSAP 21. "It brings* you closer to cash," says Mr Wild.

He believes that this empha*sis on bringing the accounts of* a small enterprise in line with the cash realities of running the business will make the accounts simpler and more useful. "We are trying to make the accounts better for a range of people to use."

The Frizzy proposals may find widespread support simply because other solutions to the problem have been far more radical – including the working party's own initial findings. One influential member of the working party has already published his own *blueprint*.

Mr Peter Walton, of the University of Geneva, recently published a paper which placed the profit and loss account at the centre of a reporting regime for the owner-managed business.

His paper, for the Foundation of Manufacturing and Industry, not only seeks to alter the quantity of information in owner-managed accounts but also the quality – by putting forward different measurement requirements. He assumes that the only real *users of such accounts are* retail banks and tax authorities.

The taxman would be interested in profit measurement while the banks would be looking at asset values, cash flow, and liabilities. As a result, the balance sheet is of much less value to external shareholders – but more interested in a P&L drawn up along tax measurement lines.

*Meanwhile the Frizzy propos*als are out for consultation. It is understood that the credit sector has examined them closely. *If Mr Wild's view that* the scheme offers simpler and more useful accounts is accepted, then the Frizzy could usher in a new era of reporting for smaller enterprises – and their leading financial investors.

John Alexander, head of corporate recovery at Pannell Kerr Forster, has called for a Business Rescue Act to stem the flow of receiverships

■ **Brazil and Argentina:** by Jonathan Wheatley and David Pilling

Two hoping to make the fast track

For manufacturers, cross-border integration is becoming more attractive

Carmakers in Brazil and Argentina hope 1996 will confirm their markets as two of the fastest growing in the world after a mixed performance in 1995. A new trade agreement will help; so will an expected surge in investment.

While Brazil's motor industry enjoyed another record year, with domestic sales up 13 per cent to 1.36m units and production up 3.4 per cent to 1.64m, growth was concentrated in the first half. From *June onwards, things were less* rosy after the government restricted credit across the economy to contain a potentially inflationary spending boom.

Argentina's industry had a tougher time. After four years of steep production increases, output fell by more than 30 per cent to only 285,272 units in 1995 from 408,647 the previous year. That drop was the result of the sharp recession as the Argentine economy contracted by about 3 per cent in the wake of Mexico's devaluation. Car sales were the worst-affected area as credit all but disappeared.

Nevertheless, manufacturers in both countries are bullish about the future. "If economic stability is sustained for the next two years, meaning the return of consumer credit, then we should see an explosion in car sales," says Mr Miguel Jorge, vice president for corporate affairs at Volkswagen in Brazil. He points out that average earnings in Brazil have risen from $2,800 a year to $4,000 over the past five years, bringing many Brazilians into the car market for the first time. "Imagine the market growth if earnings reach $6,000 *a year," he says.*

Anfavea, the Brazilian auto industry association, is confident of sustained growth. It says production will reach 3m units a year by the end of the decade. Mr Domingo Cavallo, Argentina's economy minister, says output this year will return to 1994 levels, while private sector analysts say eventual production of nearly 1m units is achievable.

Both markets have recently acquired conditions for growth thanks to inflation-beating economic reforms. First Argentina, in 1991, then Brazil, in 1994, succeeded in stabilising their currencies and boosting consumer spending power. Production of cars in Argentina quadrupled from 1990 to 1994. In Brazil, the arrival of new entry consumers in the market has lifted production of "popular" cars. Sales of these no-frills models with one-litre *engines rose* by 33 per cent last year and now account for half of all domestic sales. Growing trade liberalisation in both countries since 1990 has also boosted sales of imported cars, banned for decades to protect local manufacturers.

In Argentina, car imports rose from around 700 in the *mid-1980s to an estimated* 120,000 last year. In Brazil, imports reached 300,000 in the first six months of 1995. This prompted the government to impose 70 per cent import duties and restrict total imports for the second half of the year to 150,000. The use of quotas sparked a row between Brazil and Argentina and brought criticism from the World Trade Organisation.

Brazil lifted the quotas but retained its 70 per cent tariff, with the result that imports fell to a rate of around 15,000 units a month.

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Brazil's trade ministry says the accord will underline the country's status as a vehicle manufacturer. There is plenty of room for growth: just one in eleven Brazilians owns a car, compared with one in five in Argentina and about one car per person in the US.

Manufacturers will spend *heavily over the next few* years. The four big international car makers in Brazil – *Volkswagen, Fiat, Ford* and General Motors – have all announced expansion plans.

Announcements of new car factories are expected soon from Hyundai, Mercedes-Benz, Asia Motors and Renault, while Toyota, Honda, Mitsubishi, Peugeot and Audi are all reported to be considering *setting up in Brazil. The trade* ministry says the industry plans investments of $10.6bn to *the end of the decade.*

Over the same period, international manufacturers in Argentina have pledged about $3.7bn in investments, with Chrysler, Ford, Fiat, General Motors and Renault all planning to set up plants.

For manufacturers, cross-border integration is becoming increasingly attractive. Volkswagen, the market leader in Brazil, makes around 700,000 vehicles a year, all fitted with gearboxes made at its factory in Cordoba in Argentina. In turn, the gearboxes are made using some parts produced in Brazil. Ford has similar *arrangements. Fiat and General* Motors will soon operate in both countries.

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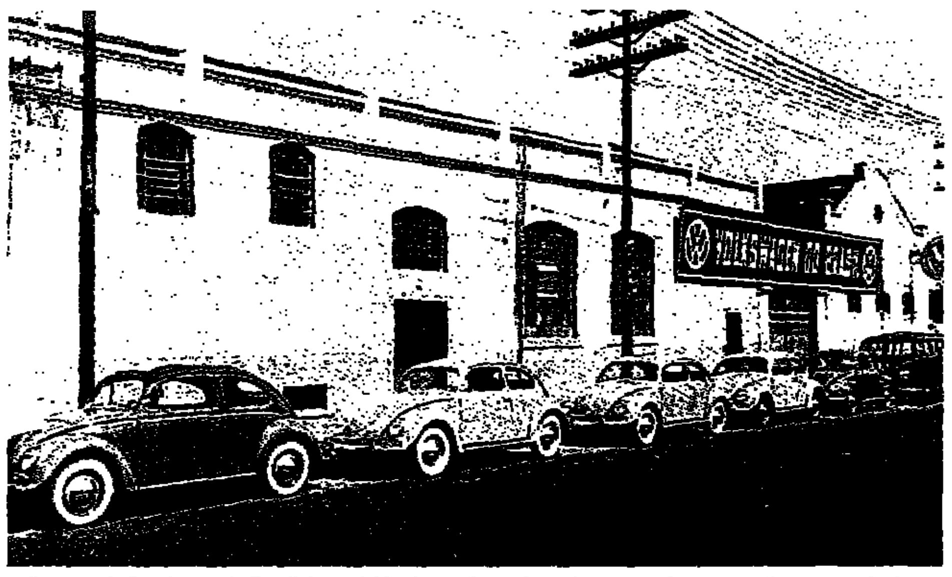

Volkswagen's first factory in Brazil. Its activities began in 1953 and have gone from strength to strength since

■ **Mexico:** by Daniel Dombey

A transformed industry

Carmakers have turned to exports but not enough to offset the slump in home demand

After a year of almost impossible challenges, the shape of the Mexican car industry has been transformed.

A collapse in the domestic market, a rise in exports under the North American Free Trade Agreement (Nafta) and the increasing use of domestic components in car assembly have all come in the *wake of the 1994 peso* devaluation and the economy's 7 per cent *contraction in 1995.*

Domestic sales have plunged 65 per cent, from 416,000 units sold in 1994 to 143,800 last year, and most manufacturers expect that three or four years will pass before 1994 levels are regained once more.

But the effects of the current crunch have not been spread evenly among the five main companies – the US Big Three, Volkswagen and Nissan.

"Volkswagen and Nissan have suffered greatly because of their penetration of their vehicles in the lower end of the market, which has been especially hurt by the credit crunch this year," says Ms Kimberly Smith, an analyst at JD Power in Detroit.

Mexico's banking crisis, which also deepened after the peso's fall, has meant that the country's banks have carried out little or no lending during the past year. At the same time, interest rates which stand at twice the level of their United States counterparts in real terms have deterred even those who *can get financing.*

The car companies have switched production *dramatically around to* exports, increasing foreign sales to 584,700 units, 21 per *cent up on 1994*, but still not enough to compensate for the slump in Mexican demand. In any case, exports are markedly less profitable than domestic sales.

"All your plans, strategies go out the window," says Mr Gary Cowger, the head of General Motors' operations in the country in remembering the first, uncertain days after the devaluation. In the end, the car manufacturers' response to the crisis was largely fashioned by Nafta, which has reduced tariffs on cars with a high level of content from participating countries, although its provisions will, in fact, not come fully into force until 2003.

"The ability of Nafta is the ability to rationalise. You are not building large amounts (of types of vehicles) in small volumes," said Mr Cowger.

Now, the companies have not just concentrated on building large volumes of a few vehicles for international *markets – overwhelmingly for* the US – but also changed production processes.

"The *(worldwide) trend is to* look for more local suppliers and local based international suppliers. Following the devaluation we have even more reason to use components with peso cost," said Mr Philippe Mellier, chief executive of Ford de México, who points to the manufacture of engines in Chihuahua in Northern Mexico for domestic assembly and for export as a chief indicator of change.

■ **Globalisation:** by Haig Simonian

Going global is nothing new

Many carmakers have chosen to avoid the problems of worldwide manufacturing

Forty years ago, the great majority of the new cars bought in Japan were made by manufacturers from abroad. At much the same time, Volkswagen inaugurated its first factory in Brazil. And as early as 1911, Ford opened its first foreign production site when it started building cars in the UK.

Globalisation, it seems, is nothing new to the world's carmakers. But while many manufacturers have expanded far beyond their original homes, it has recently become necessary to distinguish between car companies which are merely "multinational" and those with "global" pretentions.

The difference is one of philosophy rather than semantics. Being "global" means not just building cars from São Paulo to Shanghai, but adopting an integrated approach to how that far-flung empire should be run.

A "global" car company, for example, would centrally plan its entire model range, which would be built on a limited number of basic "platforms". Although the metal skins attached to them may differ to suit local tastes, the basics, such as wheelbase, width and key engineering details like the location of the central pillar, would be identical.

Globalisation, in the sense of integration, embraces manufacturing and marketing as much as design and development. Although a truly "global" car may be built in different countries, it would be made by the same processes and, quite possibly, involve similar marketing campaigns in different territories.

Purchasing, another important function in view of the fact that about 60 per cent of a car's value is comprised of components bought from outside sources, would also be given treatment as a single, worldwide activity.

Lower costs, improved use of resources and faster development times have been the reasons behind globalisation. Combining international resources can let a multinational car company make the most efficient use of its skills. Linking stylists and development engineers can accelerate development programmes, reducing the "time to market" for a new model. By working internationally from the outset, a new car can, if necessary, be introduced in a global marketing blitz, maximising the impact and avoiding the staggered launches of the past.

But to reap the greatest benefits, globalisation requires a big upheaval in a company's structure. Most corporations will have subjected themselves to the consultants' rule over the years. But their internal organisation will probably say more about patchy organic growth and opportunistic acquisitions to expand rather than the thorough going rethink globalisation requires.

So in spite of the apparent advantages, not all the world's biggest carmakers have chosen to go "global". Ford and Volkswagen have been the two most active converts. Ford 2000, the name for the ambitious globalisation strategy unveiled by Mr Alex Trotman, its chairman, last year, has turned into a symbol of one carmaker's determination to adapt.

Ford's decision to tear up its geographical divisions and reorganise around five "vehicle centres" (VCs) marks the most radical attempt to adopt a global approach. The VCs, covering different types of car from small front-wheel-drive models to hefty pick-ups, have become almost independent corporate entities charged with a specific task on a worldwide basis.

VW has moved in a similar, but less radical, direction. Mr Ferdinand Piech, its chairman, has pushed through an ambitious strategy to axe the large number of "platforms" on which its different models are made around the world.

Although less ambitious than Ford 2000, the VW group's approach is complicated by the fact that it involves integrating four different companies. And while VW and Audi are at least based in Germany, Seat and Skoda are both relatively recent acquisitions with headquarters abroad, complicating integration.

Mr Piëch aims to reduce VW's 16-odd platforms to just four. These will form the foundation for all future models to be built by VW, Audi, Seat and Skoda. For example, the platform for the next generation Golf, Europe's best selling car, will be shared by the new Audi A3 hatchback and other group models. To confuse matters further, the European platforms will also be used, and, if necessary, modified slightly, by VW's free-standing manu*facturing subsidiaries* in south America, South Africa and China.

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General Motors, Ford's bigger US rival, has gone about globalisation more cautiously. Instead of opting for an all-out reorganisation, it has devolved most of the responsibility for co-ordinating its international expansion to its Opel subsidiary in Germany. Although many of the Opel-originated or designed GM cars sold outside the US and Europe are badged as Chevrolets (the group's main US brand), Opel has to co-ordinate their development.

No other manufacturer has been as radical as Ford or VW. Japan's big carmakers have steered well clear of the management and organisational implications of globalisation. Toyota, Nissan and Honda now *all have substantial* production facilities outside their home market. Yet in spite of devolving some design and product development functions to their new operations in the US, UK, and, in some cases, elsewhere, the buck stops firmly in Japan. This regional, rather than global, approach is reflected in the cars themselves, which are predominantly geared towards distinct markets, with little cross-fertilisation between the foreign factories and minimal flows of vehicles from one non-Japanese operation to another.

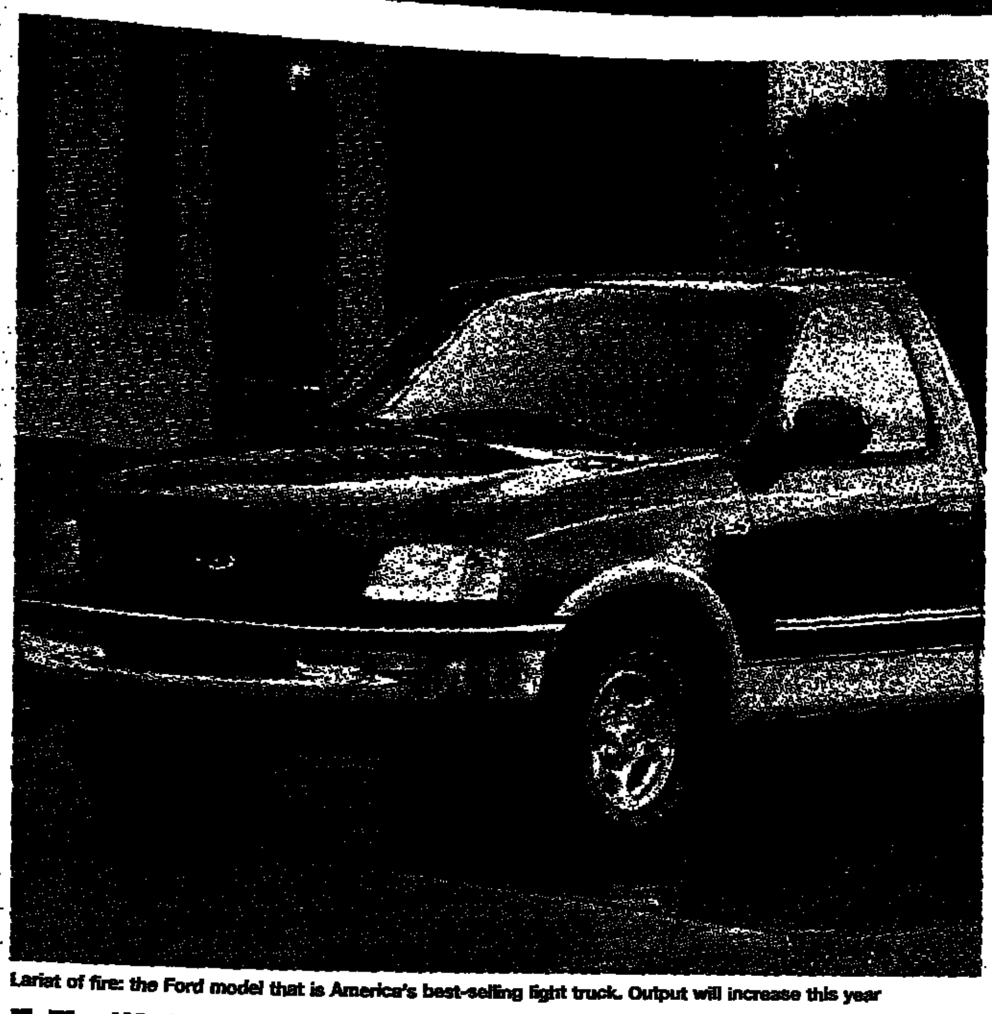
Fiat has taken a very different tack. Although appreciably smaller than Ford or VW, let alone GM or the main Japanese carmakers, it has been examining its structural options to reflect its strong international ambitions.

Cars built in Italy will continue to form the backbone of its product range, supplemented by selective sourcing from Poland and very limited imports from its big subsidiary in Brazil.

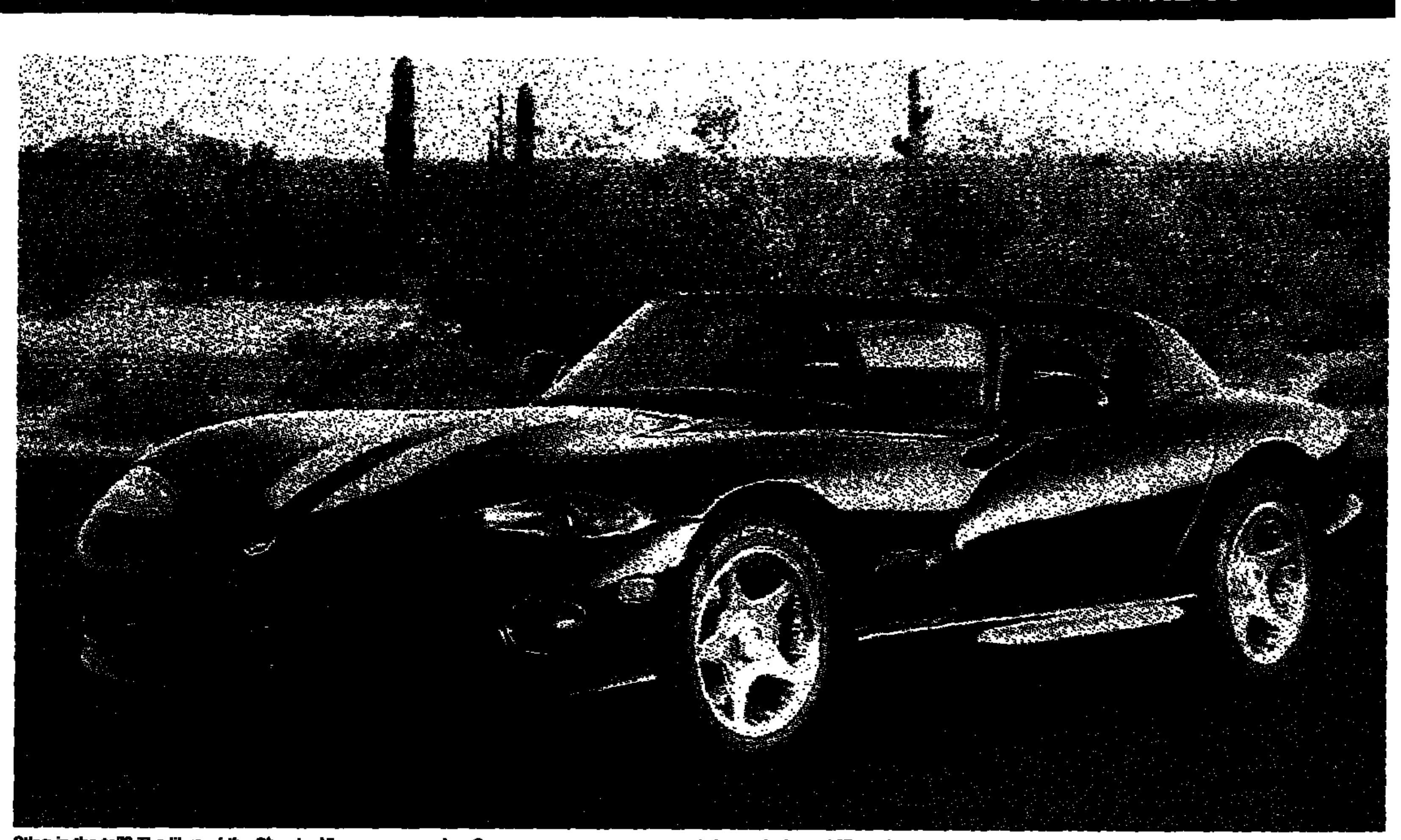
But next month will see the introduction of the group's Palio "world car". The Palio, which comprises three-and-five door hatchbacks, a saloon, estate and pick-up, marks Fiat's response to the challenge of globalisation by providing a sturdy but stylish car for motorists in industrialising *countries.*

To be launched in Brazil, the Palio will eventually be produced in Argentina, Turkey, India, Morocco, and Poland. If Fiat's executives achieve their ambition of adding China to that list, the group could be building more that 900,000 Palios a year by early next century.

Fiat's strategy requires none of the wrenching upheavals involved in Ford 2000 and entails the much more modest aim of building multinational teams for the Palio. Its caution reflects the attitude of many motor industry bosses, who say Ford has failed to take account of the risks involved in convulsive change and will suffer as a result. *Others*, however, argue that hesitation today will only make the inevitable *task of* restructuring more difficult tomorrow.



Lariat of fire: the Ford model that is America's best-selling light truck. Output will increase this year



Sting in the tail? The likes of the Chrysler Viper are expensive. On average, new cars now cost the equivalent of 27 weeks of an average American's income

■ **The US:** by Richard Waters

Light trucks leave cars standing

Detroit's most lucrative market will soon be the target of foreign manufacturers

It was the Year of the Truck.

While car sales in North America flagged in 1995, prompting manufacturers to instigate a new round of incentives late in the year to win back buyers, most makes of light trucks were driven off dealers' forecourts almost as fast as they arrived. Pick-up trucks, sport utilities and minivans are the new hot item.

And that, in turn, is good news for a resurgent Detroit. Thanks in part to a 25 per cent tariff on imports, the big three US manufacturers dominate the light truck business. Some 86 per cent of new trucks sold in the US last year were produced by General Motors, Ford or Chrysler, compared with only 64 per cent of new cars. The higher prices – and profit margins – on trucks have made this a profitable switch in consumer taste.

The growing popularity of the truck saved what otherwise would have been a poor year for the automobile industry in 1995. Light truck sales grew by 1 per cent last year, to 6.1m – at a time when car sales fell 3 per cent, to 8.7m.

All three US manufacturers had entered the year in optimistic mood, having just seen new vehicle sales in North America jump by 8 per cent during 1994, to 15.1m.

At that level, according to traditional industry thinking, sales were roughly in line with their long-term trend. With the economy continuing to expand at a steady, if unexciting, pace, they would surely continue to rise to a new cyclical peak.

It did not work out that way. During 1995, the number of light vehicles sold slipped back to around 14.8m. That played havoc with production schedules and inventory levels that had been designed with very different market conditions in mind.

It also left automobile industry economists scratching their heads in search of an explanation. Most economic indicators suggested that Americans should have bought more new vehicles, not fewer.

A number of possible explanations have been advanced. Among the most popular is that cars have simply become too expensive. According to Mr Jim Mateyka, a consultant at A. T. Kearney, there is "an affordability crisis" in the showroom. A decade and a half ago, the average new car price was equivalent to 18 weeks of the average American's income: now, it is 27 weeks.

Another possible reason is the aggressive use of cheap leases by the auto makers to sell new vehicles in the early 1990s. At that time, Detroit was trying hard to find creative new ways to keep its production lines rolling. One answer was the cheap two- and three-year lease, which quickly became one of the most popular ways of acquiring a new vehicle.

Many of those leases expired in 1995, with two results. A wave of two- and three-year-old cars came on to the market, prompting a boom in the second-hand car business. Also, the buyers who have enjoyed a cheap lease for the past three years have proved unwilling to pay the higher prices that Detroit is now trying to get for its vehicles.

At what should be a high point in their cyclical fortunes, these developments have created a curious sense of insecurity in the US auto industry. The carmakers have found that they had misjudged their customers – either by setting prices too high, or failing to spot changes in buying habits.

Detroit believes it is better prepared for 1996. Production plans have been set in the expectation that sales will edge back up to about 15m this year. Where possible, extra shifts have been added or capacity shifted to lift output of the most popular light trucks. And incentives have been lifted to tempt buyers back.

The all-new model of the Taurus, Ford's biggest-selling car, stands as a symbol of the tribulations that manufacturers have faced in recent months. Though lavishly praised by reviewers on its launch last autumn and pitched only slightly above the list price of the old Taurus, the new model has got off to a slow start. In part, says Ford, that is because customers have become accustomed to big discounts in the showroom, and are less willing to pay up for a higher-quality product.

In tacit recognition of this, Ford earlier this year came up with a stripped-down version of the new Taurus, at a lower price.

While weaker than 1994, though, it would be wrong to conclude that 1995 was a poor year for Detroit. Between them, the Big Three still managed to generate profits after tax of $8.1bn from their automotive operations (the year before, they had made $9.8bn).

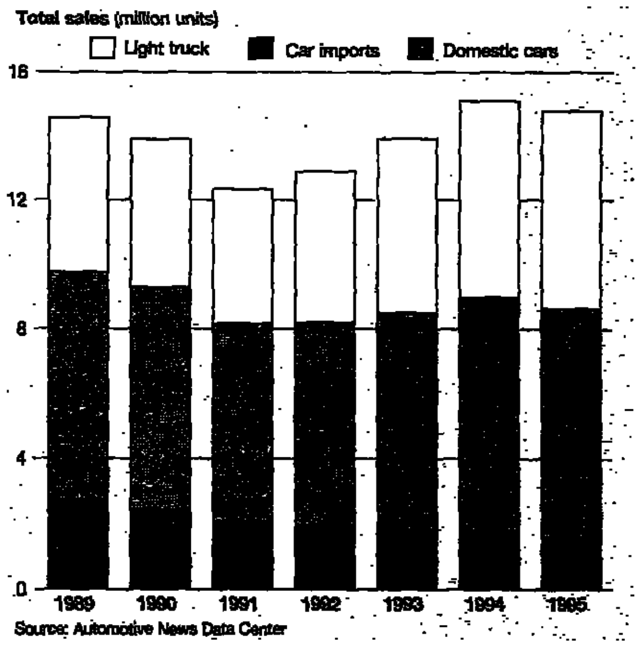
Non-US manufacturers, on the other hand, have continued to struggle in the North American market. The dollar, while rebounding in recent months, remains far below its yen value of the 1980s, when Japanese automakers were in the ascendant. That has made it hard for importers to remain competitive. Most US cars are now priced well below comparably-equipped Japanese vehicles.

Through the use of hefty incentives, the Japanese manufacturers have at least managed to hold on to their position in the North American market. Led by Toyota, they made around 23 per cent of the new vehicles sold last year – in line with the previous two years, and only 3 percentage points below their share in 1991.

By shifting production to new US assembly plants, and buying a larger share of parts there, foreign manufacturers are slowly reducing this pricing disadvantage. According to the Association of International Automobile Manufacturers, production volumes in foreign-owned plants in the US jumped fourfold in the decade to 1994, accounting for 46 per cent of vehicles sold by foreign companies in that year.

The next wave of foreign auto plants is aimed squarely at Detroit's most lucrative market: light trucks. Several manufacturers aim to build sport utilities in the US. And, in an assault on a market that US manufacturers have traditionally had to themselves, Toyota recently announced plans to make a full-sized pick-up truck, complete with a US-style V8 engine, at a new plant in Indiana.

US cars and light trucks



Source: Automotive News Data Center

■ **Western Europe:** by John Griffiths

Growth runs into a jam

Can collaborative deals help solve the problem of too many makers and too little demand?

A nasty-looking traffic jam is building up in Western Europe.

In new car sales terms, the traffic lights appear stuck on red: neither the European Automobile Manufacturers' Association (ACEA) nor independent forecasters like the Economist Intelligence Unit, expect more than 2-3 per cent growth this year. In what is now a patently almost mature market, no sharp further growth can be expected in the foreseeable future.

However, more cars continue to stream towards the marketplace, not just from long-established, indigenous European producers, but from a growing number of outsiders: the Japanese "transplant" factories of the UK and Spain and, more recently, surging imports from South Korea.

Attempts to woo reluctant buyers, and thus keep production lines flowing, have led to heavy discounting and a plethora of other incentives.

And such is the importance of the motor industry to West European economies – typically accounting for one in 10 jobs in countries such as France and Germany – that governments have thrown hefty financial resources into boosting production, albeit from behind a veil of environmental concern. France and Spain each provide substantial financial inducements for drivers to scrap old, polluting cars for new, environmentally "clean" ones. A campaign for similar incentives is being waged – so far without success – by the industry in the UK.

Yet despite all this activity, overcapacity still hovers around 25-30 per cent. The region has too many car plants; and, arguably, too many car companies, making too-small profits. Something, surely, has got to give?

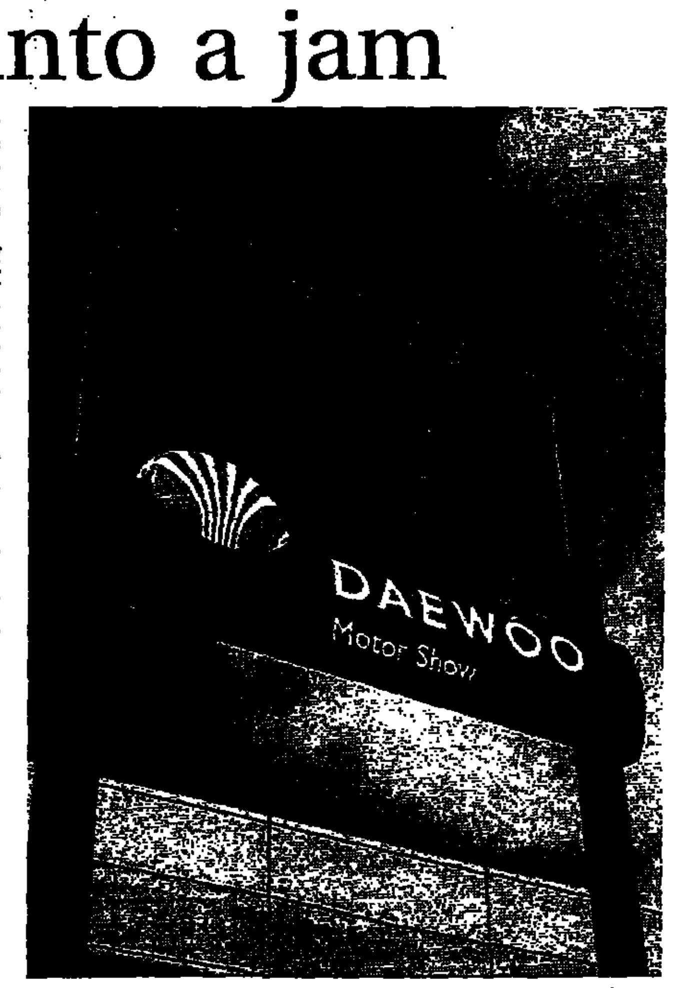
Cost-saving collaboration is making it financially easier for manufacturers seeking to secure a stake in some of the growing number of niches into which the European car market is fragmenting. Volkswagen and Ford have pooled resources to bring to the market a multipurpose vehicle (MPV), named respectively as the VW Sharan and Ford Galaxy, but essentially the same behind the badge.

In similar vein, Volvo of Sweden and Mitsubishi of Japan have collaborated in new production facilities at Volvo's NedCar plant in Holland to produce Volvo and Mitsubishi versions of a new medium-sized car.

Even so, the financial pressures on Europe's smaller car companies became obvious last month when Volvo reported another plunge into losses in last year's final quarter. This reinforced the view of analysts that Volvo could ill afford last year's decision not to proceed with a merger with Renault of France to enhance its resources and provide economies of scale.

Ford's ill-fated dalliance with Fiat of Italy in the 1980s also showed how reluctant Europe's car companies are to yield control to a partner, and how wary governments can be about perceived threats to national "flagship" industries. In the absence of such rationalisation, however, the prospect is for a relentless tightening of the competitive screws, with little prospect of price-raising.

For much of the 1980s, debate about car pricing within Europe was conducted in terms of comparisons between national markets. With the European Commission now publishing regular pricing comparisons, it is becoming increasingly accepted, even by the more strident consumer groups, that pricing disparities are mainly the result of differential tax regimes and currency shifts.



Sign of the times: South Korean imports add to the over-supply problem

Daewoo on the dais: the Nexia and the Espero models on display at a Halfords showroom

Ominously, however, as North America has become a mass tourism market for Europeans, consumer eyes are turning to the much lower price levels prevailing in the US and Canada and looking for a reason. The questioning is starting to go beyond consumer groups. The UK's franchised dealers' association has just sent a delegation to North America in search of its own answers. It is unlikely to diminish consumer hostility that there are legitimate reasons for the gap, stemming not least from the economies of scale enjoyed by a North American industry which has many fewer companies than Europe.

The opacity of transfer pricing and other operating elements of big motor industry multinationals can create scepticism about underlying profitability levels. Nevertheless, the sharply plunging profitability of some of Europe's leading carmakers like Ford and General Motors' Vauxhall subsidiary – the latter saw pre-tax profits melt to £3m last year from 1994's level of nearly £80m – appears to underline the point that the squeeze is not a fabrication.

It was felt deeply last year because Western Europe's market failed to live up to even the industry's expectations. In 1994, sales rose by 6.1 per cent and it was widely expected in the industry that growth close to this level might be sustained during last year. Instead, sales rose by just 0.6 per cent to 12m, well below the record 13.5m of 1992, when much of Europe was replacing over-aged fleets kept going during recession.

Yet manufacturers remained slow to apply the production brakes. As a result output reached 12.7m last year to add to already excessive stocks, according to provisional estimates from market monitors Automotive Industry Data.

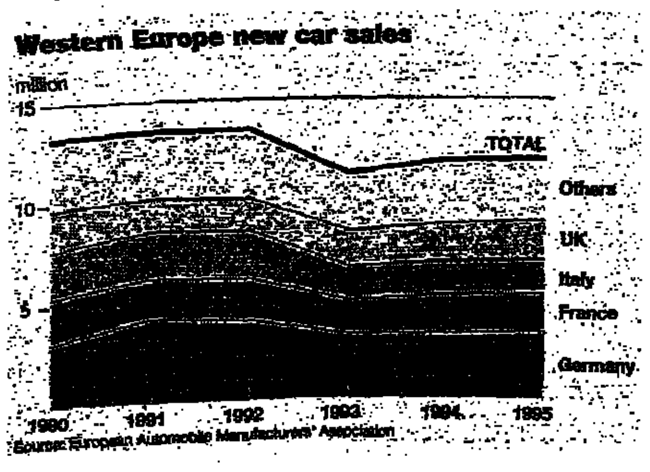
Thus heavy discounting and other sales incentives appear set to be an ineradicable part of the marketing scene for as far as the industry cares to look.

As the pressures to keep production lines flowing mount, it cannot be certain that some of the big volume producers will be able to keep to their pledges to stop doing the deeply discounted fleet deals that have patently upset many private motorists.

ACEA itself blames high and increasing unemployment across Europe, weak economic growth and high debt levels in many EU countries as being mainly behind the malaise. Its hopes that these negative factors would alleviate this year were given a boost last month when statistics showed a 6 per cent sales rise in January.

According to EIU forecasts, a market rise of around 2.6 per cent this year will be followed by one of less than 2 per cent in 1997 – forecasts which assume that initiatives like the current French "Juppé" incentive to scrap cars over eight years old are renewed after their expiry dates this year.

Western Europe new car sales



Source: European Automobile Manufacturers' Association

Brazil and Argentina: by Jonathan Wheatley and David Pilling

Two hoping to make the fast track

For manufacturers, cross-border integration is becoming more attractive

Carmakers in Brazil and Argentina hope 1996 will confirm their markets as two of the fastest growing in the world after a mixed performance in 1995. A new trade agreement will help; so will an expected surge in investment.

While Brazil's motor industry enjoyed another record year, with domestic sales up 13 per cent to 1.36m units and production up 3.4 per cent to 1.64m, growth was concentrated in the first half. From June onwards, things were less rosy after the government restricted credit across the economy to contain a potentially inflationary spending boom.

Argentina's industry had a tougher time. After four years of steep production increases, output fell by more than 30 per cent to only 285,272 units in 1995 from 408,647 the previous year. That drop was the result of the sharp recession as the Argentine economy contracted by about 3 per cent in the wake of Mexico's devaluation. Car sales were the worst-affected area as credit all but disappeared.

Nevertheless, manufacturers in both countries are bullish about the future. "If economic stability is sustained for the next two years, meaning the return of consumer credit, then we should see an explosion in car sales," says Mr Miguel Jorge, vice president for corporate affairs at Volkswagen in Brazil. He points out that average earnings in Brazil have risen from $2,800 a year to $4,000 over the past five years, bringing many Brazilians into the car market for the first time. "Imagine the market growth if earnings reach $6,000 a year," he says.

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Manufacturers will spend heavily over the next few years. The four big international car makers in Brazil – Volkswagen, Fiat, Ford and General Motors – have all announced expansion plans.

Announcements of new car factories are expected soon from Hyundai, Mercedes-Benz, Asia Motors and Renault, while Toyota, Honda, Mitsubishi, Peugot and Audi are all reported to be considering setting up in Brazil. The trade ministry says the industry plans investments of $10.6bn to the end of the decade.

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Mexico: by Daniel Dombey

A transformed industry

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Mexico's banking crisis, which also deepened after the peso's fall, has meant that the country's banks have carried out little or no lending during the past year. At the same time, interest rates which stand at twice the level of their United States counterparts in real terms have deterred even those who can get financing.

The car companies have switched production dramatically around to exports, increasing foreign sales to 584,700 units, 21 per cent up on 1994, but still not enough to compensate for the slump in Mexican demand. In any case, exports are markedly less profitable than domestic sales.

"All your plans, strategies go out the window," says Mr Gary Cowger, the head of General Motors' operations in the country in remembering the first, uncertain days after the devaluation. In the end, the car manufacturers' response to the crisis was largely fashioned by Nafta, which has reduced tariffs on cars with a high level of content from participating countries, although its provisions will, in fact, not come fully into force until 2003.

"The ability of Nafta is the ability to rationalise. You are not building large amounts (of types of vehicles) in small volumes," said Mr Cowger.

Now, the companies have not just concentrated on building large volumes of a few vehicles for international markets – overwhelmingly for the US – but also changed production processes.

"The (worldwide) trend is to look for more local suppliers and local based international suppliers. Following the devaluation we have even more reason to use components with peso cost," said Mr Philippe Mellier, chief executive of Ford de México, who points to the manufacture of engines in Chihuahua in Northern Mexico for domestic assembly and for export as a chief indicator of change.

Globalisation: by Haig Simonian

Going global is nothing new

Many carmakers have chosen to avoid the problems of worldwide manufacturing

Forty years ago, the great majority of the new cars bought in Japan were made by manufacturers from abroad. At much the same time, Volkswagen inaugurated its first factory in Brazil. And as early as 1911, Ford opened its first foreign production site when it started building cars in the UK.

Globalisation, it seems, is nothing new to the world's carmakers. But while many manufacturers have expanded far beyond their original homes, it has recently become necessary to distinguish between car companies which are merely "multinational" and those with "global" pretentions.

The difference is one of philosophy rather than semantics. Being "global" means not just building cars from São Paulo to Shanghai, but adopting an integrated approach to how that far-flung empire should be run.

A "global" car company, for example, would centrally plan its entire model range, which would be built on a limited number of basic "platforms". Although the metal skins attached to them may differ to suit local tastes, the basics, such as wheelbase, width and key engineering details like the location of the central pillar, would be identical.

Globalisation, in the sense of integration, embraces manufacturing and marketing as much as design and development. Although a truly "global" car may be built in different countries, it would be made by the same processes and, quite possibly, involve similar marketing campaigns in different territories.

Purchasing, another important function in view of the fact that about 60 per cent of a car's value is comprised of components bought from outside sources, would also be given treatment as a single, worldwide activity.

Lower costs, improved use of resources and faster development times have been the reasons behind globalisation. Combining international resources can let a multinational car company make the most efficient use of its skills. Linking stylists and development engineers can accelerate development programmes, reducing the "time to market" for a new model. By working internationally from the outset, a new car can, if necessary, be introduced in a global marketing blitz, maximising the impact and avoiding the staggered launches of the past.

But to reap the greatest benefits, globalisation requires a big upheaval in a company's structure. Most corporations will have subjected themselves to the consultants' rule over the years. But their internal organisation will probably say more about patchy organic growth and opportunistic acquisitions to expand rather than the thorough going rethink globalisation requires.

So in spite of the apparent advantages, not all the world's biggest carmakers have chosen to go "global". Ford and Volkswagen have been the two most active converts. Ford 2000, the name for the ambitious globalisation strategy unveiled by Mr Alex Trotman, its chairman, last year, has turned into a symbol of one carmaker's determination to adapt.

Ford's decision to tear up its geographical divisions and reorganise around five "vehicle centres" (VCs) marks the most radical attempt to adopt a global approach. The VCs, covering different types of car from small front-wheel-drive models to hefty pick-ups, have become almost independent corporate entities charged with a specific task on a worldwide basis.

VW has moved in a similar, but less radical, direction. Mr Ferdinand Piëch, its chairman, has pushed through an ambitious strategy to axe the large number of "platforms" on which its different models are made around the world.

Although less ambitious than Ford 2000, the VW group's approach is complicated by the fact that it involves integrating four different companies. And while VW and Audi are at least based in Germany, Seat and Skoda are both relatively recent acquisitions with headquarters abroad, complicating integration.

Mr Piëch aims to reduce VW's 16-odd platforms to just four. These will form the foundation for all future models to be built by VW, Audi, Seat and Skoda. For example, the platform for the next generation Golf, Europe's best selling car, will be shared by the new Audi A3 hatchback and other group models. To confuse matters further, the European platforms will also be used, and, if necessary, modified slightly, by VW's free-standing manufacturing subsidiaries in south America, South Africa and China.

> Japan's big carmakers have steered well clear of the management implications of globalisation

General Motors, Ford's bigger US rival, has gone about globalisation more cautiously. Instead of opting for an all-out reorganisation, it has devolved most of the responsibility for co-ordinating its international expansion to its Opel subsidiary in Germany. Although many of the Opel-originated or designed GM cars sold outside the US and Europe are badged as Chevrolets (the group's main US brand), Opel has to co-ordinate their development.

No other manufacturer has been as radical as Ford or VW. Japan's big carmakers have steered well clear of the management and organisational implications of globalisation. Toyota, Nissan and Honda now all have substantial production facilities outside their home market. Yet in spite of devolving some design and product development functions to their new operations in the US, UK, and, in some cases, elsewhere, the buck stops firmly in Japan. This regional, rather than global, approach is reflected in the cars themselves, which are predominantly geared towards distinct markets, with little cross-fertilisation between the foreign factories and minimal flows of vehicles from one non-Japanese operation to another.

Fiat has taken a very different tack. Although appreciably smaller than Ford or VW, let alone GM or the main Japanese carmakers, is has been examining its structural options to reflect its strong international ambitions.

Cars built in Italy will continue to form the backbone of its product range, supplemented by selective sourcing from Poland and very limited imports from its big subsidiary in Brazil.

But next month will see the introduction of the group's Palio "world car". The Palio, which comprises three-and-five door hatchbacks, a saloon, estate and pick-up, marks Fiat's response to the challenge of globalisation by providing a sturdy but stylish car for motorists in industrialising countries.

To be launched in Brazil, the Palio will eventually be produced in Argentina, Turkey, India, Morocco, and Poland. If Fiat's executives achieve their ambition of adding China to that list, the group could be building more that 900,000 Palios a year by early next century.

Fiat's strategy requires none of the wrenching upheavals involved in Ford 2000 and entails the much more modest aim of building multinational teams for the Palio. Its cautious reflects the attitude of many motor industry bosses, who say Ford has failed to take account of the risks involved in convulsive change and will suffer as a result. Others, however, argue that hesitation today will only make the inevitable task of restructuring more difficult tomorrow.

Japan: by Michiyo Nakamoto

Marshalling resources for a new model army

Demand for recreational vehicles is helping to rebuild confidence

Along Honda's highly automated production line at its factory in Suzuka, south-west of Tokyo, no fewer than 560 robots have been busy these past few weeks fitting seats, installing doors and screwing bolts on the company's new estate car that went on sale in Japan last month.

The Japanese car company, which has long been a bigger operator overseas than in its own country, is moving swiftly to bring out several new models this year, in order to capitalise on Japanese consumers' strong demand for sports utilities, estate cars and other non-conventional vehicles.

The rush of activity at Honda this year mirrors a trend throughout the Japanese vehicle industry as it approaches the end of its darkest period since the war.

After years of being on the defensive, Japanese carmakers are marshalling their resources and charging ahead to exploit a much improved trading environment.

The long, gloomy spell of falling production and dismal sales at home is being overtaken by a period of buoyant replacement demand that is supported by the many consumers who bought cars during the bubble economy years.

The average replacement cycle in Japan is about five years, and 1996 happens to fall right in the middle of what is expected to be three years of particularly strong demand.

Vehicle sales last peaked in Japan between 1990 and 1992, just before the worst effects of Japan's asset deflation set in, and, on this basis, the industry is likely to enjoy strong replacement demand in the next year or two, says Mr Koji Endo, analyst at Lehman Brothers in a recent report.

As in other developed markets, recreational vehicles have been doing particularly well. Honda's CR-V, a sport utility vehicle, for example has been so popular that the company has doubled production from 280 units a day when it began selling the cars last October to 560 units by February.

A very British coupe: Honda has introduced a European version of its Civic model

Meanwhile, the yen's weakening since last summer has Japanese carmakers sighing with relief. "When the exchange rate hit Y79 to the dollar, we were really concerned about the future," concedes Mr Toshiaki Taguchi, a director of Toyota.

With the yen now trading at around Y105 to the dollar, Japanese carmakers can make fair profits on their exports. Mr Taguchi notes that Toyota's exports are profitable at an exchange rate of Y100 to the dollar but some analysts believe that Japanese carmakers can make profits on their exports at Y95 to the dollar.

A third factor that is helping to improve the climate for Japanese makers, is the cost-cutting they embarked on to offset falling production at home and stem the loss of overseas competitiveness as a result of the stronger Yen.

Japanese car companies and their parts suppliers have worked strenuously to cut out development and manufacturing costs, not only to offer increasingly tight-fisted consumers more value-for-money but also to avoid having to take the axe to their workforce.

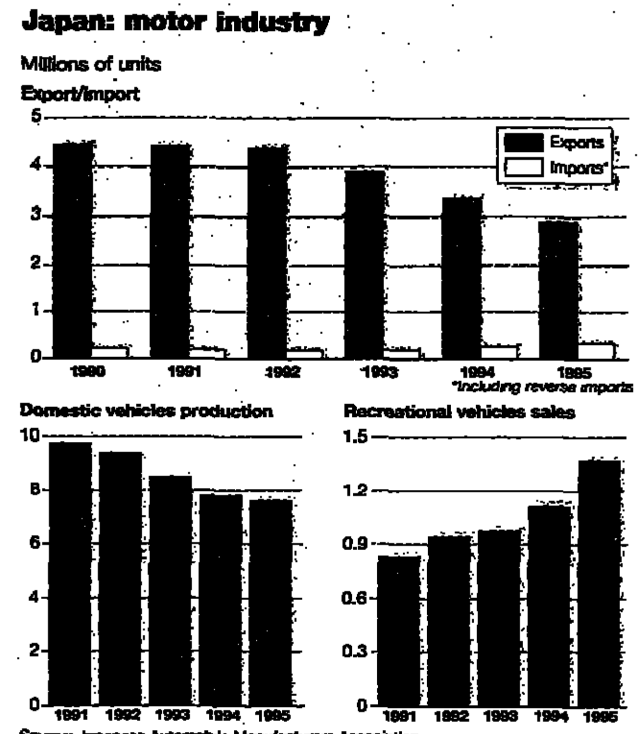
The benefits of this cost-cutting have already been seen in the companies' financial results of the past year or two. But "in the next few years to 1997 there will be many new models coming out which reflect the impact of cost-cutting from the design stage," notes Mr Takaki Nakanishi, industry analyst at Merrill Lynch in Tokyo.

All these factors have helped to rebuild confidence among Japanese carmakers. During the long years of depressed sales, they were surprised to discover that even their good cars did not necessarily sell well, points out Toyota's Mr Taguchi.

Now that they have been bringing out cars that are more in tune with consumer needs, "there is a greater feeling that if we make products that meet consumer demand, they will sell," he says.

However, Japanese carmakers take a sober view of the improvement in their fortunes. The current upturn is being seen not as full-scale recovery but as a short-lived respite during which they must strengthen their ability to withstand the next round of adversity.

At home, this has meant restructuring their manufacturing operations so that they could be profitable even at reduced production levels. The industry, tired of being at the mercy of foreign exchange fluctuations and trade pressure, has committed itself to building up production overseas.



Source: Japanese Automobile Manufacturers Association

As a result, domestic production has fallen by more than 2m units in the past five years and there is little hope that the trend can be reversed. Instead, Japanese carmakers have been focusing their efforts on how to remain profitable even with reduced output.

Honda, for example, says production, which peaked at nearly 1.4m units at the turn of the decade, is now down to 975,000 units last year. But, thanks to cost-cutting measures and with most of their 2,500 part-time workers no longer on the payroll, Honda is now profitable with a production level of 1m units.

Overseas, Japanese carmakers are stepping up local development, as well as production and procurement, in order to improve their competitiveness.

Mitsubishi Motors, which has a manufacturing facility in Illinois where it makes cars both for itself and for Chrysler, announced last month that it is setting up an R&D centre in the US.

Honda is also increasing local production in North America from 658,995 units last year to 720,000. The local content ratio for its 1996 Civic was 92 per cent, compared with 82 per cent for the previous model.

Meanwhile in Europe, Mitsubishi has started turning out cars from its joint production facility with Volvo in the Netherlands, while Honda is boosting production this year with the introduction of the European Civic model, adding to overall Japanese local production in the region.

Toyota will take on the Big Three in the US with the introduction of the RAV 4, its popular RV, and the start of production of a pick up truck in Indiana. Honda is also considering the exporting its CR-V to North America.

Having rebuilt strength and confidence, Japanese carmakers are gearing up to go on the offensive. When they do so, their achievements over the past few years will be brought to the real test.

Eastern Europe: by Kevin Done

Western recovery fuels demand

Central Europe's markets and industry are being integrated with the rest of the world

Demand for new cars grew strongly in eastern Europe last year, as the economic recovery in the region accelerated. Car production in seven countries of central Europe* rose by an estimated 17 per cent helped by the higher domestic demand and by rising exports to western Europe.

The future prospects for the motor industry in the region have also been strengthened by a series of new investments announced by vehicle makers from the US, Asia and western Europe.

Sales of new cars in eastern Europe* "exceeded expectations" in 1995 according to Ms Carol Thomas, automotive analyst at DRI Europe, rising by an estimated 8 per cent to 1.25m.

Demand in the seven countries of central Europe measured by DRI rose by 7.3 per cent to around 604,000 new cars, while sales in Russia and Ukraine increased by 9 per cent to 649,000 according to the group's latest World Car Industry Forecast Report.

In central Europe, demand fell in only two of the seven markets. In Hungary, the impact of an 8 per cent import surcharge and other tax increases was compounded by a government austerity package, while sales in Bulgaria fell for the second year in succession following a series of prohibitive tax increases implemented in 1994.

Six years after the fall of communism the world's leading carmakers and automotive components suppliers are growing in confidence about the outlook for central Europe.

Prospects for an extended period of strong growth are good with GDP (gross domestic product) increases of 5 to 7 per cent a year becoming commonplace from Poland to Slovakia and with inflation under control in much of the region and currencies stable or appreciating.

New car sales are forecast to rise by at least 10 per cent a year for the rest of the decade to more than 1m in 2000, compared with forecast growth of 2 to 4 per cent a year in west European new car markets.

Car production in central Europe, supported both by higher domestic demand and rising exports to west Europe led by Fiat in Poland and by Skoda, the Volkswagen group subsidiary in the Czech Republic, is forecast by DRI to rise to 1.2m in 2000 from 807,000 last year and 689,000 in 1994.

Uplifting experience: output of the Renault Clio is rising in Slovenia

Production in Russia and Ukraine is forecast by DRI to increase from 902,000 in 1995 to 1.5m in 2000.

The car markets and the automotive industry in central Europe are becoming increasingly integrated with west Europe and the rest of the global industry, but the world's leading makers generally remain cautious about making significant investment commitments further east in Russia, Ukraine and the central Asian republics.

General Motors of the US, the world's largest vehicle producer, is seeking to break new ground in Russia, however. At the end of last year it agreed to form a joint venture with the Yelabuga Automotive Works (Yelaz) in Tatarstan with the aim of producing up to 50,000 units a year of its Chevrolet Blazer four-wheel drive sport utility vehicle.

Investment for the project, which still needs final government approval, is expected to total around $250m with Yelaz taking a 75 per cent equity stake in the venture and GM 25 per cent.

Yelaz has a large, partially-completed 1,000 ha (2,500 acre) manufacturing site at Yelabuga, 1,400kms east of Moscow, of which the joint venture with GM will take around 60,000 sq m for the Blazer project.

GM has been one of the pioneers in the development of the automotive industry in eastern Europe ever since the fall of the Berlin Wall. It moved quickly to build a plant in Eisenach, in former East Germany filling some of the vacuum left by the demise of the old Wartburg factory. In similar fashion, Volkswagen replaced the old Trabant operation at Zwickau.

General Motors is also poised to make a significant investment in Poland, the biggest market in central Europe, where it has a shortlist of four sites in southern Poland for its first integrated car manufacturing plant in the region.

It is planning to invest around DM500m in the first stage of the project aimed at creating an initial capacity to build 70,000 to 100,000 cars a year. Production – most probably of a re-engineered, low-cost version of its current Opel/Vauxhall Astra small family car – is due to start in the spring of 1998.

> The most audacious investment in the region is being made by a newcomer – Daewoo

Output is rising substantially at several existing operations in the region. Fiat's car output in Poland, where it completed the takeover of FSM, the Polish state-owned carmaker in 1993, rose by 10.9 per cent last year to 278,200, its highest ever level. Some 156,900 units, or 56.4 per cent of Fiat Auto Poland's total production, were exported, chiefly to west European markets. Poland is Fiat's only production location for the Cinquecento, its smallest car.

In the Czech Republic, Skoda, the 70 per cent owned Volkswagen subsidiary, is investing heavily in preparation for the launch of a second model range in the late autumn on the way to virtually doubling its production capacity by the end of the decade to more than 350,000.

In Slovenia, Revoz which has been 54 per cent controlled by Renault, the French carmaker, since 1992, increased output by 18 per cent last year to 87,400, as it continued to recover strongly from the deep recession in the west European car market in 1993. Renault exports more than 85 per cent of the output from its Slovenian plant at Novo Mesto, chiefly to France and Italy.

The most audacious investment in the auto industry in eastern Europe is being taken by a newcomer, however, Daewoo of South Korea, which has chosen to make the region the centrepiece of its vehicle manufacturing operations for the whole of Europe, east and west.

In less than two years it has taken control of a series of beleaguered former state owned vehicle makers in Romania (Oltcit), the Czech Republic (Avia) and Poland (FS Lublin and FSO), and it has built a car plant in Uzbekistan.

It is promising to invest $1.1bn at FSO, $340m at FS Lublin and $900m at Rodae in Romania, with a total capacity to produce around 500,000 vehicles a year across the full range of cars, vans and trucks and with engines, gearboxes and components exchanged between the plants.

"These are the smallest figures for our expenses for the modernisation and development of those factories. It would be difficult today to estimate the maximum investment of Daewoo in the Polish car industry," says Mr Yoo Choon-Sik, president of Daewoo Motor Poland.

Western producers believe that Daewoo has dangerously under-estimated the enormous challenge of transforming the outdated, monolithic operations of former state-owned carmakers like FSO in Warsaw. But the South Koreans are unabashed. The first kit assembly of Daewoo Nexia/Cielo cars began in both Lublin, Poland and in Craiova, Romania in January this year.

**DRI figures for central Europe include Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovakia and Slovenia. Eastern Europe includes these seven countries together with Russia and Ukraine.*

Santana 2000: Volkswagen is in ventures with companies given state priority in the five-year plan

■ **China:** by Tony Walker

Teething troubles slow gears of growth

The aim is not just self-sufficiency, but exporting 10 per cent of production by 2010

China's automotive sector is experiencing more than its share of teething troubles as it strives to transform itself into one of the country's so-called modern "pillar" industries.

A *combination of a credit* squeeze, competition from imports, difficulties in rationalising a chaotic components sector, and inadequate infrastructure to support a growing vehicle population are all proving a drag on the industry after heady growth forecasts of the 1993-94 period.

Growth in output of vehicles in 1995 slowed to 5 per cent, or about 1.5m units for the year, of which some 20 per cent were passenger cars.

This compared with the virtual doubling of vehicle production between 1991-94.

The slump in demand obliged domestic producers to *lower prices drastically* to reduce stocks. Imports were down by about 44 per cent last year; although large numbers of vehicles continued to be smuggled into China.

China has been gradually *reducing its dependence on* imports. In 1986, 80 per cent of all cars sold in China were *imported. But last year the figure* was down to less than 10 per cent. Under an auto industry policy unveiled in 1994, China plans not merely to be self-sufficient, but to have grown so as to be exporting *about 10 per cent of its production* by 2010.

The plan, known as the "Policy for China Automotive Industry Enterprises", aims to foster the establishment of three or four "large scale" vehicle-producing conglomerates, backed by a vibrant automotive components sector.

*It wants to encourage econo*mies of scale, and to rationalise an industry which presently includes 120-130 vehicle-makers, many of them tiny backyard operators.

China has also frozen approvals for new entrants to passenger car manufacturing until 1997, although there is some elasticity in this policy. General Motors, for example, was recently given the green light for a $1bn project in Shanghai to produce upscale medium sized cars and mini-vans.

In China's Ninth Five-Year Plan, eight automotive companies are being given priority. *However, the eventual aim is* to encourage the consolidation of individual producers into larger industry groups.

The eight companies are: First Automobile Works in Changchun, Changchun Volkswagen (a venture between VW and the First Automobile Works),the Shanghai-Volkswagen Automobile Corporation, Guangzhou-Peugeot Automobile, Beijing Jeep, Wuhan Aeolus-Citroen Automobile Corporation, Tianjin Daihatsu Automobile, Chang'an Suzuki Automobile and Guizhou Skylark Automobile.

But the main companies are clearly FAW in Changchun, the Shanghai Automotive Industry Corporation and Second Automobile Works in Hubei.

These will almost certainly form the nucleus of a reconstituted industry. FAW, for example, recently paid $70m for a controlling stake in Jinbei Automotive Corp of Shenyang.

Jinbei has been producing *small trucks with GM and also* has a licensing agreement with Toyota to assemble Hiace vehicles.

The Japanese company is focusing its attention, however, on its relationship with Tianjin Automobile Industrial Corporation with whom it has been in talks on producing car engines. It wants eventually to *join the Tianjin company in* the production of small- to medium-sized cars like Corolla or Corona.

Mr He Guangyen, the minister of machinery industry, said last month China would earmark Yn279.7bn($33.7bn) under its Ninth Five-Year Plan to achieve ambitious production *targets*.

China aims to produce 1.3m passenger sedans and 1.4m buses and trucks annually by the year 2000.

About two-thirds of new investment is to come from the central government and local authorities.

Foreign investors would be expected to contribute the rest. Judging by enthusiasm among international automotive com*panies for the China market,* Beijing's expectations are not unreasonable.

An indication of the strong desire of foreign companies to become involved in co-production was Ford's decision last year to purchase a 20 per cent stake in Jiangling motors, a truck manufacturer in *southern Jiangxi province,* when the company floated B-shares (shares reserved for *foreign investors) on the local* stock market.

Itochu and Isuzu of Japan used a similar approach to gaining a foothold in Chinese vehicle manufacturing when they secured a 25 per cent stake in the Beijing Lightbus company through the purchase of "legal person" shares *(shares held by institutions).* But the authorities are not entirely comfortable with such deals which tend to fall outside established investment guidelines.

China's investment in its automotive industry over the next five years includes some Yn55bn earmarked for the components sector, according to Mr Zhang Xiaoyu, the director of the department of auto*motive industry in the minis*try of machinery industry. This figure compares with a mere Yn7.63bn between 1991-1995.

China has set as a target more than 60 per cent of car parts and 80 per cent of parts for light trucks to be made locally by the end of 1997. By *the end of the century China* aims to have a network of of 5-10 internationally competitive parts manufacturers.

At the present time, China's components sector is highly fragmented. It has some 4,800 components makers across the country, and most of them are tiny. Many of these will go out of business under the new policy.

The ministry of machinery *industry has released a list of* 300 companies making key components which will be eligible for policy loans and preferential policies.

Foreign investment in these enterprises will be encouraged. Gradually, China's automotive sector is taking shape.

Going quite a lick at twelve miles per hour on the level

In January, the UK celebrated the birth of its motor industry 100 years ago. Just two years after the first cars were built in Germany, John Griffiths writes.

The "Great Horseless Carriage Company" was Britain's pioneer company, in that it was formed specifically to build vehicles in series production.

In this case, it was Daimler vehicles under licence at workshops in Coventry. Production did not start until 1897, however. The Coventry-built Daimlers were preceded by the Lanchester.

These were designed and **built by three British brothers. But although it was the first all-British car to run on the roads, Lanchesters were not built systematically for sale until some time later.**

Although the Coventry company took the Daimler name and the inventor Gottlieb Daimler was a Board member, there were no financial links between the ***English and German*** **companies.**

The Coventry Daimler company had a history as long and turbulent as any in the UK motor industry.

An early high point was its delivery of the first royal car to the future Edward VII in 1900. It finally lost its independence in 1960 when, reduced to building very low volumes of limousines, it was ***taken over by Jaguar.***

The production of limousines continued for a period under Jaguar's ownership.

But increasingly the famous fluted radiator became simply a badge-engineered variation of Jaguar's own cars.

This year some 200 limited-edition "centenary" Daimlers were produced at Jaguar's Browns Lane factory ***near Birmingham.***

But again they were luxuriously-equipped Jaguar variants.

And as for Jaguar, it is these days under the ownership of Ford of the US.

■ **India:** by Mark Nicholson

A new generation hits the road

Foreign carmakers are queueing to enter the opened market in the next *18 months*

Today's aspirational car sticker of choice in India reads not "My Second Car is a...", but rather "My Next Car is a..." Except, that is, for those Indian motorists who have already purchased one of the new generation of vehicles now *starting to appear on the coun*try's pot-holed, chaotic and already crowded roads.

The Indian motorist of the sixties and seventies was limited largely to the burly and venerable Hindustan Motors' Ambassador, based on a 1950s Morris Oxford, and Premier Automobiles' Padmini, a dated Fiat design. After 1984, came the luxury of a choice from a small range of Marutis, the 800cc and 1,000cc cars produced by the Suzuki-Indian government 50-50 joint venture. Maruti quickly captured more than 70 per cent of India's car market, a share it retains.

But with these carmakers' *monopolies ended by the relax*ation in 1991 of industrial licencing under India's economic reforms, choice in the nineties is set to explode. A queue of foreign carmakers have either created or expanded joint ventures with Indian partners to enter the market with new vehicles in the next year to 18 months. One South Korean carmaker Hyundai, has announced plans for a 100 per cent owned $700m-plus manu*facturing plant. Another South* Korean group, Daewoo, has already begun, having already secured 100,000 orders for its Cielo model made in a joint venture with Indian commercial vehiclemaker DCM. The *Cielo hit India's potholed roads* late last year.

Local manufacturers are following suit. Maruti is in the throes of finalising plans to raise its own annual output by 100,000 cars to well above *300,000. Local vehiclemaker* Telco, part of the Tata business house, is, meanwhile, developing its own indigenous small car to compete with the smaller, best-selling Maruti 800. Bajaj, the country's biggest maker of scooters and *three-wheelers, is talking with* several foreign carmakers to join the fray with its own small car.

Competition in the Indian market has suddenly become fast and ferocious, aided by the reduction in last year's budget of excise duty on passenger cars to 40 per cent from 55 per *cent and cuts in duty on car* components. The question is, can all the new ventures survive, let alone flourish? "Nobody knows," says Mr Keshub Mahindra, chairman of Mahindra and Mahindra, which has tied up with Ford. "Everybody's guessing."

Recent car sales have cer*tainly been strong, rising from* average annual growth of around 14 per cent in the early 1990s to 37 per cent in 1995. Car sales have risen from 178,666 in 1990 to 260,852 in 1994-95 and are expected to surpass 300,000 this year. By most estimates, vehicle sales in 2000, will top 800,000 and may reach 1m cars. *Less clear, however, is how* particular market segments will fare. And here different manufacturers are placing quite distinct bets.

For most of the fresh foreign-Indian joint ventures, the general bet is that Indian motorists want to trade up from their Marutis or Ambassadors, and can afford to. This is the logic behind most ventures announced over the last year, which if all come to fruition *would increase car capacity by* more than 800,000 cars by 2000.

These are:

- between Mahindra and Mahindra, the Indian vehicle maker, and Mercedes to produce 20,000 Mercedes E-series *cars a year, already launched* from M&M's Pune plant;
- another M&M tie-up, with Ford, to produce 25,000 Escorts and 100,000 Fiestas by 1996 and 1998 respectively from plants in Pune and a new greenfield *factory in Tamil Nadu;*
- between Premier Automobiles and Peugeot to produce 60,000 Peugeot 309s a year from PAL's new Thane plant in Maharashtra by this year;
- between PAL and Fiat to produce 20,000 Uno models, due *to go on sale later this year* from PAL's plant outside Bombay;
- between Hindustan Motors and GM to produce 25,000 Opel Astras year from a new plant in Gujarat;
- between Siel, an Indian engineering group, and Honda to make Civic cars from a *plant in Uttar Pradesh* by next year;
- and a licencing agreement between Hindustan Motors and Mitsubishi of Japan to make up to 30,000 Lancer cars a year from late next year.

> The large European and US carmakers could be arriving soon to scout the market

Daewoo has led the field, having already introduced its Rs550,000 Cielo model last year in a joint venture with DCM, the Indian commercial vehiclemaker. To this deluge could soon be added the arrival of Audi, BMW, and other European carmakers, with Chrysler of the US also scouting the market and Fiat having stated its desire to produce its forthcoming "world car" in India.

In virtually all cases, the newcomers are betting that they can create new "medium" car segments, with engines no smaller than 1,000-1,300cc and priced upmarket of the Ambassadors and Marutis, which sell at between Rs200,000-Rs275,000. Ford, for instance will price its Fiesta around Rs400,000-Rs500,000, while the Astra will sell at Rs600,000-Rs700,000.

Few foreign newcomers, *though, are prepared directly* to take on Maruti's dominance of the smallest, and most popular 800cc class. The simple reason is cost. By now Maruti has written off the development and capital costs of its 800 model. Moreover, after more *than 10 years developing a net*work of ancillary suppliers, the local content in Maruti *vehicles ranges between* 82-95 per cent. By comparison, the Astra aims to begin producing at 50 per cent local content, and most other incomers at less. Because of Maruti's cost advantages, particularly with the 800cc car, says Mr Mahindra: "No car in the world can compete with the Maruti."

*The closest any foreign car*maker is coming to challenging Maruti's domination of the cheap, small car segment is Fiat which has aggressively priced its Uno at around Rs300,000, where it is competing directly with Maruti's Zen, the Suzuki Alto in Europe.

The biggest challenge to Maruti, which says it could be selling 450,000 cars by 2000, and 60 per cent of these in the 800cc category, could be home-grown. Mr Ratan Tata, chairman of Telco, has said the company's new and home-designed and developed small car, will compete directly with the smallest Maruti in price and features. *He also says the com*pany expects to be manufacturing 275,000 small cars by 2000.

Bajaj, too, which dominates the huge Indian market for two and three-wheelers, is examining the possibility of entering the *smallest car segment*. A great advantage for both Telco and Bajaj would be existing sales and dealer networks, along with established links with local ancillary suppliers. This make possible the highly competitive *costing which, it is* assumed, would remain critical to success at the lower end of the Indian market.

The battle for India's motorists has thus begun. By the end of this year there will be 20 models on the roads, against 12 a year ago. By 2000, industry estimates suggest there may be a further 30 models on India's clogged city streets. And nowhere to park.

هكذا من الأصل

MARKETS REPORT

Lira gains on hopes of a fall in interest rates

By Philip Gawith

The Italian lira yesterday rallied to a thirteen month high on the foreign exchanges, helped by a buoyant performance from the bond market amid expectations that interest rates will soon be cut.

The lira's strong showing overshadowed the Spanish peseta which was slightly weaker in the aftermath of the weekend elections which saw the Socialists voted from office after 13 years. The peseta finished in London at Pta84.75 against the D-Mark, from Pta84.09 on Friday, but off an intra-day low of Pta85.21.

The Australian dollar was little changed following the electoral defeat of the Labor party, which also ran the country for 13 years. It finished at 75.98 US cents, from 76.15 cents on Friday.

The lira closed at L1,050, from L1,058. Analysts said that from a technical viewpoint, a sustained move below L1,050 could bring L1,030 into line as the next target.

The dollar had a fairly uneventful day, closing virtually unchanged against the D-Mark at DM1.4758. Against the yen it was slightly weaker at Y105.14, from Y105.455.

The pound had a quiet day, finishing little changed at DM2.2553 and $1.5282. Short sterling futures, however, had a good day, with the dominant market view that interest rates are likely to be cut again this week. Most of the contracts beyond September 1996 made gains of around 15 basis points. The December contract closed at 93.91, from 93.75.

■ The lira appeared to be the beneficiary of two separate events: the Spanish election result, and optimism about a cut in interest rates.

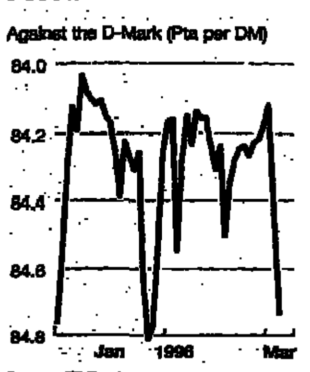
Mr Giorgio Radaelli, economist at Lehman Brothers in London, said that Italy was seen by many investors as being a close substitute for Spain. With Spanish bond and equity prices falling sharply, there was evidence that some investors were switching their funds into Italian assets.

The interest rate optimism springs from the expectation of good news on inflation. Mr Jeremy Hawkins, chief economist at the Bank of America in London, said people were looking for "high-yielders" with supportive fundamentals, and the lira was seen as a good bet given the perception that the Bank of Italy had lagged the field in cutting interest rates.

Mr Hawkins said a virtuous spiral was underway whereby a stronger currency was seen as being counter-inflationary, boosting the prospect of lower rates, which in turn helped the lira because they made Italian assets look more attractive.

Peseta

Against the D-Mark (Pta per DM)



Source: FT Extel

Mr Radaelli said the lira's rally from around L1,095 on February 19 had been driven by very good January inflation data, and the "Dini" factor – a reference to the decision of the previous prime minister to run for office.

He said foreign investors were much more uncritical about Mr Dini than Italian investors. They say: "We like Dini because he is a technocrat. We also like the centre-left."

But Mr Radaelli said the Dini factor "cuts both ways for the centre-left", with the potential for it to unleash a leadership struggle. He said it might also prevent the achievement of the sort of strong majority in upcoming elections which markets favour.

■ Traders said the Bank of Spain had been active in the market supporting the peseta. Financial markets reacted negatively to the result which will probably require tri-party negotiations before a government can be formed.

Short sterling, meanwhile, appeared to be the beneficiary of the broadening City consensus in favour of an early cut in interest rates. It was also helped by the good performance of euromarks and renewed interest rate optimism in the US.

■ A report by Greenwich Associates of 1,100 large US and Canadian companies revealed some interesting foreign exchange trends:

* the trading volume of the typical North American company fell by nearly 15 per cent between 1994 and 1995, with CTA and hedge fund volumes down by 63 per cent;
* the average currency options trading volume fell by nearly 40 per cent;
* only one in 20 companies trade foreign exchange for a profit, compared to one in 10 in 1994;
* increased use of options is seen as the big trend of the next two years, while there is a "striking increase in interest" in exotic currencies.

■ **Pound in New York**

Mar 4	Latest	Prev. close
£ spot	1.5290	1.5285
1 mth	1.5279	1.5272
3 mth	1.5260	1.5255
1 yr	1.5173	1.5160

■ **OTHER CURRENCIES**

Mar 4	£	$
Czech Rp	41.5748 - 41.6479	27.2140 - 27.2440
Hungary	217.071 - 217.289	142.090 - 142.140
Iran	4586.10 - 4583.10	3000.00 - 3000.00
Kuwait	0.4565 - 0.4575	0.2988 - 0.2993
Poland	3.9205 - 3.9246	2.5663 - 2.5673
Russia	7371.39 - 7371.15	4822.00 - 4825.00
U.A.E.	5.6109 - 5.6151	3.6728 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

Mar 4		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	15.8801	-0.0047	517 - 684	15.8892	15.8192	15.8301	2.3	15.7476	2.8	-	-	105.9
Belgium	(BFr)	46.3504	-0.0251	199 - 808	46.4570	46.2410	46.2454	2.7	46.0454	2.6	45.1854	2.5	108.2
Denmark	(DKr)	8.7123	-0.0028	071 - 174	8.7181	8.6913	8.7004	1.6	8.6802	1.5	8.5741	1.6	109.2
Finland	(FM)	6.9863	+0.0198	790 - 935	7.0060	6.9460	6.9819	0.8	6.9738	0.7	-	-	84.2
France	(FFr)	7.7307	+0.001	268 - 345	7.7399	7.7121	7.7185	1.9	7.6995	1.6	7.62	1.4	109.3
Germany	(DM)	2.2553	-0.0005	541 - 564	2.2569	2.2489	2.2492	3.2	2.2403	2.7	2.1974	2.6	110.2
Greece	(Dr)	369.369	-0.423	062 - 716	371.335	368.586	-	-	-	-	-	-	66.2
Ireland	(I£)	0.9712	-0.0004	703 - 721	0.9725	0.9690	0.9702	1.2	0.9686	1.0	0.9647	0.7	97.5
Italy	(L)	2368.27	-18.59	679 - 974	2389.61	2364.53	2375.62	-3.8	2391.47	-3.9	2450.32	-3.5	74.5
Luxembourg	(LFr)	46.3504	-0.0251	199 - 808	46.4570	46.2410	46.2454	2.7	46.0454	2.6	45.1854	2.5	108.2
Netherlands	(Fl)	2.5239	-0.0012	227 - 251	2.5285	2.5180	2.5177	2.9	2.5056	2.9	2.4574	2.6	108.3
Norway	(NKr)	9.8203	+0.0063	113 - 292	9.8328	9.7969	9.8123	1.0	9.7988	0.9	9.7402	0.8	99.0
Portugal	(Es)	234.273	+0.369	120 - 426	234.431	233.815	234.698	-2.2	235.603	-2.3	-	-	95.2
Spain	(Pta)	191.124	+1.365	993 - 256	191.858	190.718	191.544	-2.6	192.399	-2.7	195.479	-2.3	81.2
Sweden	(SKr)	10.4340	+0.096	229 - 450	10.4450	10.3018	10.4354	-0.2	10.4383	-0.2	10.4467	-0.1	86.4
Switzerland	(SFr)	1.8361	-0.0031	349 - 373	1.8378	1.8326	1.8295	4.3	1.8162	4.3	1.7645	3.9	113.5
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	83.5
Ecu	-	1.2178	-0.0013	171 - 185	1.2197	1.2151	1.2164	1.4	1.2137	1.3	1.2018	1.3	-
SDR†	-	1.04462	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5279	-0.0001	272 - 285	1.5304	1.5269	-	-	-	-	-	-	-
Brazil	(R$)	1.5026	-0.0011	019 - 032	1.5054	1.5018	-	-	-	-	-	-	-
Canada	(C$)	2.0957	+0.004	946 - 968	2.1001	2.0930	2.094	0.9	2.0913	0.8	2.0814	0.7	83.8
Mexico	(New Peso)	11.5685	-0.0351	571 - 799	11.5800	11.5570	-	-	-	-	-	-	-
USA	($)	1.5282	-0.0002	277 - 287	1.5307	1.5271	1.527	0.9	1.5252	0.8	1.5162	0.8	95.6
Pacific/Middle East/Africa													
Australia	(A$)	2.0115	+0.0043	101 - 128	2.0166	1.9976	2.0134	-1.1	2.0182	-1.3	2.0415	-1.5	88.7
Hong Kong	(HK$)	11.8153	-0.0016	108 - 199	11.8336	11.8078	11.8049	1.1	11.7925	0.8	11.7475	0.6	-
India	(Rs)	52.4250	-0.3813	696 - 803	52.7990	52.3650	-	-	-	-	-	-	-
Israel	(Shk)	4.7430	+0.0021	379 - 481	4.7483	4.7368	-	-	-	-	-	-	-
Japan	(Y)	160.675	-0.503	577 - 773	161.230	160.450	159.91	5.7	158.42	5.6	152.525	5.1	138.2
Malaysia	(M$)	3.8906	+0.0005	888 - 926	3.8956	3.8824	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.2699	+0.002	683 - 715	2.2734	2.2654	2.2737	-2.0	2.2869	-3.0	2.3207	-2.2	105.4
Philippines	(Peso)	39.9930	-0.0205	035 - 825	40.0836	39.9019	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.7315	-0.0005	293 - 337	5.7407	5.7277	-	-	-	-	-	-	-
Singapore	(S$)	2.1583	+0.0002	568 - 597	2.1606	2.1545	-	-	-	-	-	-	-
South Africa	(R)	5.9600	+0.0069	542 - 658	5.9784	5.9540	-	-	-	-	-	-	-
South Korea	(Won)	1191.38	-4.67	084 - 193	1196.37	1190.68	-	-	-	-	-	-	-
Taiwan	(T$)	42.0225	-0.0055	072 - 377	42.0897	41.9891	-	-	-	-	-	-	-
Thailand	(Bt)	38.5137	-0.0326	858 - 416	38.5610	38.4850	-	-	-	-	-	-	-

† Rates for Mar 1. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Mar 4		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P Morgan Index
Europe													
Austria	(Sch)	10.3783	-0.0017	762 - 803	10.3830	10.3470	10.3623	1.9	10.3308	1.8	10.2083	1.6	105.8
Belgium	(BFr)	30.3300	-0.0125	200 - 400	30.3690	30.2420	30.285	1.8	30.193	1.8	29.86	1.5	107.9
Denmark	(DKr)	5.7010	-0.0011	995 - 025	5.7025	5.6830	5.6976	0.7	5.692	0.6	5.7085	-0.1	108.2
Finland	(FM)	4.5716	+0.0135	683 - 748	4.5832	4.5399	4.5671	1.2	4.5586	1.1	4.5421	0.6	83.6
France	(FFr)	5.0587	+0.0013	578 - 595	5.0867	5.0430	5.0546	1.0	5.049	0.8	5.0347	0.5	108.9
Germany	(DM)	1.4758	-0.0001	755 - 760	1.4786	1.4710	1.4737	1.7	1.4691	1.8	1.4525	1.6	109.5
Greece	(Dr)	241.715	-0.245	580 - 850	243.020	241.030	243.29	-7.8	246.54	-8.0	261.215	-8.1	65.6
Ireland	(I£)	1.5735	+0.0003	725 - 745	1.5779	1.5725	1.5738	-0.2	1.574	-0.1	1.568	0.3	-
Italy	(L)	1549.71	-11.97	925 - 017	1564.21	1545.85	1556.06	-4.9	1567.81	-4.7	1618.71	-4.5	73.6
Luxembourg	(LFr)	30.3300	-0.0125	200 - 400	30.3690	30.2420	30.278	2.1	30.19	1.8	29.885	1.5	107.8
Netherlands	(Fl)	1.6516	-0.0005	513 - 518	1.6537	1.6468	1.6485	2.2	1.6421	2.3	1.6198	1.9	107.6
Norway	(NKr)	6.4261	+0.005	223 - 298	6.4330	6.4070	6.4238	0.4	6.4156	0.7	6.3986	0.4	97.9
Portugal	(Es)	153.300	+0.275	250 - 350	153.400	152.870	153.675	-2.9	154.445	-3.0	158.05	-3.1	95.2
Spain	(Pta)	125.065	+0.91	020 - 110	125.500	124.700	125.46	-3.8	126.195	-3.6	129.685	-3.7	81.5
Sweden	(SKr)	6.8276	+0.0636	226 - 326	6.8330	6.7386	6.8447	-3.0	6.8741	-2.7	7.0116	-2.7	86.6
Switzerland	(SFr)	1.2015	-0.0019	011 - 019	1.2026	1.1979	1.1979	3.6	1.191	3.5	1.1672	2.9	112.9
UK	(£)	1.5282	-0.0002	277 - 287	1.5307	1.5271	1.527	0.9	1.5252	0.8	1.5162	0.8	83.1
Ecu	-	1.2549	+0.0011	546 - 552	1.2578	1.2537	1.2552	-0.3	1.2555	-0.2	1.2562	-0.1	-
SDR†	-	0.68368	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9998	+0.0001	997 - 999	1.0000	0.9997	-	-	-	-	-	-	-
Brazil	(R$)	0.9832	-0.0006	831 - 833	0.9837	0.9830	-	-	-	-	-	-	-
Canada	(C$)	1.3714	+0.0028	711 - 716	1.3735	1.3705	1.3716	-0.1	1.3717	-0.1	1.3767	-0.4	83.0
Mexico	(New Peso)	7.5700	-0.022	650 - 750	7.5750	7.5650	7.5723	-0.4	7.5755	-0.3	7.5803	-0.1	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	96.6
Pacific/Middle East/Africa													
Australia	(A$)	1.3161	+0.0029	158 - 167	1.3174	1.3081	1.3181	-1.8	1.3216	-1.7	1.3403	-1.8	90.3
Hong Kong	(HK$)	7.7315	-	310 - 320	7.7325	7.7308	7.7322	-0.1	7.734	-0.1	7.761	-0.4	-
India	(Rs)	34.3050	-0.245	800 - 300	34.5700	34.2700	34.455	-5.2	34.76	-5.3	36.23	-5.6	-
Israel	(Shk)	3.1037	+0.0018	013 - 060	3.1064	3.0980	-	-	-	-	-	-	-
Japan	(Y)	105.140	-0.315	110 - 170	105.400	104.920	104.705	5.0	103.905	4.7	100.835	4.1	138.1
Malaysia	(M$)	2.5460	+0.0007	455 - 465	2.5469	2.5420	2.5469	-0.4	2.553	-1.1	2.5765	-1.2	-
New Zealand	(NZ$)	1.4852	+0.0015	848 - 859	1.4865	1.4835	1.4883	-2.5	1.4941	-2.4	1.5187	-2.3	-
Philippines	(Peso)	26.1700	-0.01	200 - 200	26.2200	26.1200	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7505	+0.0002	503 - 507	3.7507	3.7502	3.751	-0.1	3.7517	-0.1	3.755	-0.1	-
Singapore	(S$)	1.4123	+0.0003	118 - 128	1.4130	1.4100	1.4088	3.0	1.4028	2.7	1.3773	2.5	-
South Africa	(R)	3.9000	+0.005	975 - 025	3.9100	3.8950	3.9287	-8.8	3.9802	-8.2	4.2035	-7.8	-
South Korea	(Won)	779.600	-2.95	500 - 700	782.500	779.400	782.6	-4.6	786.1	-3.3	804.6	-3.2	-
Taiwan	(T$)	27.4980	-	970 - 990	27.4990	27.4960	27.518	-0.9	27.558	-0.9	-	-	-
Thailand	(Bt)	25.2020	-0.018	920 - 120	25.2160	25.1900	25.3008	-4.7	25.5045	-4.8	26.387	-4.7	-

† SDR rate per $ for Mar 1. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Mar 1: Base average 1990=100

WORLD INTEREST RATES

MONEY RATES

March 4	Over night	One month	Three mths	Six mths	One year	Lomb. Inter.	Dis. rate	Repo rate
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.00	3.00	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.00	3.00	-
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.90	-	5.60
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.90	-	5.60
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.00	3.00	3.30
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.00	3.00	3.30
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.25
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.25
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	9.00	9.89
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	9.00	9.72
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	3.00	3.30
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	3.00	3.30
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.00	1.50	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.00	1.50	-
US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	5.00	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	5.00	-
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-

■ $ LIBOR FT London				
Interbank Fixing	[illegible]	[illegible]	[illegible]	[illegible]
week ago	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar CDs	4.83	4.86	4.89	4.94
week ago	4.83	4.90	4.92	4.98
ECU Linked Ds	[illegible]	[illegible]	[illegible]	[illegible]
week ago	[illegible]	[illegible]	[illegible]	[illegible]
SDR Linked Ds	[illegible]	[illegible]	[illegible]	[illegible]
week ago	[illegible]	[illegible]	[illegible]	[illegible]

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Mar 4	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D-Mark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dutch Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Can. Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ **THREE MONTH PIBOR FUTURES** (MATIF) Paris interbank offered rate (FFr5m)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	95.60	95.61	-0.01	95.62	95.60	9,132	46,855
Jun	95.62	95.63	-0.01	95.66	95.62	9,276	39,272
Sep	95.63	95.62	-	95.66	95.62	3,615	48,301

■ **THREE MONTH EUROMARK FUTURES** (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	96.70	96.69	-	96.70	96.68	10434	140487
Jun	96.80	96.82	+0.03	96.83	96.80	25216	200920
Sep	96.72	96.74	+0.04	96.75	96.70	26763	199571
Dec	96.47	96.50	+0.07	96.52	96.45	24773	164951

■ **THREE MONTH EUROLIRA FUTURES** (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	90.36	90.42	+0.09	90.46	90.32	5471	32426
Jun	90.84	91.04	+0.20	91.08	90.84	10477	33779
Sep	91.23	91.39	+0.19	91.35	91.22	1157	19081
Dec	91.32	91.44	+0.16	91.40	91.30	891	13418

■ **THREE MONTH EURO SWISS FRANC FUTURES** (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	98.30	98.28	-0.02	98.31	98.25	1659	18394
Jun	98.24	98.24	+0.01	98.25	98.21	2874	20386
Sep	98.09	98.09	+0.02	98.10	98.08	773	11676
Dec	97.82	97.83	+0.03	97.83	97.78	808	8144

■ **THREE MONTH ECU FUTURES** (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	95.38	95.40	+0.05	95.40	95.36	457	6679
Jun	95.47	95.54	+0.09	95.54	95.46	1011	5413
Sep	95.46	95.47	+0.09	95.46	95.42	17	3226
Dec	95.22	95.28	+0.10	95.28	95.22	249	3130

* LIFFE futures also traded on APT

■ **EUROLIRA OPTIONS** (LIFFE) L1000m points of 100%

Strike Price	Calls Mar	Calls Jun	Calls Sep	Puts Mar	Puts Jun	Puts Sep
9025	0.22	0.92	1.33	0.05	0.13	0.19
9050	0.08	0.72	1.12	0.16	0.18	0.23
9075	0.02	0.54	0.93	0.35	0.25	0.29

Est. vol. total, Calls 1700 Puts 351. Previous day's open int., Calls 27048 Puts 20941

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Mar 4		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.80	16.68	4.865	2.095	5109	5.446	21.19	505.5	412.3	22.50	3.961	2.157	4.522	3.297	346.7	2.628
Denmark	(DKr)	53.20	10	8.874	2.588	1.115	2718	2.897	11.27	268.9	219.4	11.97	2.107	1.148	2.406	1.754	184.5	1.398
France	(FFr)	59.95	11.27	10	2.917	1.256	3063	3.265	12.70	303.1	247.2	13.49	2.375	1.293	2.711	1.976	207.9	1.575
Germany	(DM)	20.55	3.863	3.428	1	0.431	1050	1.119	4.355	103.9	84.75	4.625	0.814	0.443	0.929	0.678	71.26	0.540
Ireland	(I£)	47.73	8.972	7.962	2.322	1	2439	2.599	10.11	241.3	196.8	10.74	1.891	1.030	2.159	1.574	165.5	1.254
Italy	(L)	1.957	0.368	0.326	0.095	0.041	100.	0.107	0.415	9.894	8.070	0.440	0.078	0.042	0.089	0.065	6.786	0.051
Netherlands	(Fl)	18.36	3.452	3.063	0.893	0.385	938.2	1	3.891	92.83	75.71	4.132	0.727	0.396	0.830	0.605	63.67	0.483
Norway	(NKr)	47.20	8.872	7.873	2.296	0.989	2411	2.570	10	238.6	194.6	10.62	1.870	1.018	2.134	1.556	163.6	1.240
Portugal	(Es)	19.78	3.718	3.300	0.962	0.414	1011	1.077	4.191	100.	81.56	4.452	0.784	0.427	0.895	0.652	68.59	0.520
Spain	(Pta)	24.25	4.559	4.046	1.180	0.508	1239	1.321	5.139	122.6	100.	5.458	0.961	0.523	1.097	0.800	84.09	0.637
Sweden	(SKr)	44.44	8.353	7.412	2.162	0.931	2270	2.420	9.415	224.6	183.2	10	1.760	0.959	2.010	1.465	154.1	1.168
Switzerland	(SFr)	25.25	4.745	4.211	1.228	0.529	1290	1.375	5.349	127.6	104.1	5.681	1	0.545	1.142	0.832	87.53	0.663
UK	(£)	46.35	8.712	7.731	2.255	0.971	2368	2.524	9.820	234.3	191.1	10.43	1.836	1	2.096	1.528	160.7	1.218
Canada	(C$)	22.11	4.156	3.688	1.076	0.463	1130	1.204	4.685	111.8	91.17	4.976	0.876	0.477	1	0.729	76.67	0.581
US	($)	30.33	5.702	5.060	1.476	0.635	1550	1.652	6.427	153.3	125.1	6.826	1.202	0.654	1.372	1	105.2	0.797
Japan	(Y)	28.84	5.421	4.811	1.403	0.604	1474	1.571	6.111	145.8	118.9	6.490	1.143	0.622	1.304	0.951	100.	0.758
Ecu		38.05	7.153	6.347	1.851	0.797	1944	2.072	8.062	192.4	156.9	8.563	1.507	0.821	1.721	1.255	131.9	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ **D-MARK FUTURES** (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.6788	0.6776	+0.0003	0.6803	0.6776	25,359	67,741
Jun	0.6829	0.6810	+0.0005	0.6834	0.6809	1,605	6,839
Sep	0.6852	0.6852	+0.0014	0.6860	0.6852	119	1,682

■ **SWISS FRANC FUTURES** (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.8332	0.8326	+0.0015	0.8369	0.8326	17,285	36,355
Jun	0.8403	0.8399	+0.0016	0.8435	0.8399	760	3,298
Sep	0.8496	0.8496	+0.0043	0.8496	0.8470	64	297

■ **JAPANESE YEN FUTURES** (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.9513	0.9527	+0.0023	0.9551	0.9503	20,936	61,031
Jun	0.9650	0.9639	+0.0026	0.9660	0.9639	3,942	8,801
Sep	-	0.9718	-	-	-	18	887

■ **STERLING FUTURES** (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	1.5270	1.5268	+0.0002	1.5306	1.5268	9,117	40,630
Jun	1.5250	1.5240	+0.0002	1.5276	1.5232	8,219	10,615
Sep	-	1.5210	+0.0006	1.5240	-	6	15

UK INTEREST RATES

LONDON MONEY RATES

Mar 4	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	7 1/8 - 2	6 5/8 - 6 1/2	6 1/4 - 6 3/16	6 3/16 - 6 1/16	6 1/8 - 6	6 1/8 - 5 15/16
Sterling CDs	-	-	6 3/16 - 6 1/8	6 1/16 - 6	6 - 5 15/16	6 1/32 - 5 31/32
Treasury Bills	-	-	6 1/8 - 6 1/32	5 31/32 - 5 29/32		
Bank Bills	-	-	6 1/8 - 6 1/16	5 31/32 - 5 29/32	5 29/32 - 5 27/32	-
Local authority deps.	6 3/16 - 6 1/16	6 5/16 - 6 3/16	6 1/4 - 6 3/16	6 1/8 - 6 1/16	6 1/16 - 5 15/16	6 1/32 - 5 15/16
Discount Market deps	7 - 6 1/4	6 1/2 - 6 3/8	-	-		

UK clearing bank base lending rate 6¼ per cent from January 18, 1996

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1½pc. Ave. tender rate of discount 5.8280pc. ECGD fixed rate Stlg. Export Finance. Make up day Feb 29, 1996. Agreed rates for period Mar 26, 1996 to Apr 25, 1996, Schemes II & III 7.48pc. Reference rate for period Feb 1, 1996 to Feb 29, 1996, Schemes IV & V 6.236pc. Finance House Base Rate 6.5pc from March 1, 1996

■ **THREE MONTH STERLING FUTURES** (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	93.95	93.95	+0.01	93.98	93.94	9972	63588
Jun	94.10	94.16	+0.09	94.16	94.10	23994	73795
Sep	94.05	94.12	+0.12	94.14	94.05	17546	54988
Dec	93.81	93.91	+0.16	93.92	93.81	11868	44131
Mar	93.50	93.60	+0.18	93.60	93.50	3936	32294

Also traded on APT. All Open interest figs. are for previous day.

■ **SHORT STERLING OPTIONS** (LIFFE) £500,000 points of 100%

Strike Price	Calls Mar	Calls Jun	Calls Sep	Puts Mar	Puts Jun	Puts Sep
9375	0.21	0.46	0.54	0.01	0.05	0.17
9400	0.04	0.26	0.37	0.09	0.10	0.25
9425	0	0.12	0.24	0.30	0.21	0.37

Est. vol. total, Calls 7596 Puts 4640. Previous day's open int., Calls 182229 Puts 160447

BASE LENDING RATES

	%		%		%
Adam & Company	6.25	Duncan Lawrie	6.25	Royal Bk of Scotland	6.25
Allied Trust Bank	6.25	Exeter Bank Limited	7.25	•Singer & Friedlander	6.25
AIB Bank	6.25	Financial & Gen Bank	7.00	•Smith & Williamson	6.25
•Henry Ansbacher	6.25	•Robert Fleming & Co	6.25	TSB	6.25
Bank of Baroda	6.25	Girobank	6.25	United Bank of Kuwait	6.25
Banco Bilbao Vizcaya	6.25	•Guinness Mahon	6.25	Unity Trust Bank Plc	6.25
Bank of Cyprus	6.25	Habib Bank AG Zurich	6.25	Western Trust	6.25
Bank of Ireland	6.25	•Hambros Bank	6.25	Whiteaway Laidlaw	6.25
Bank of India	6.25	Heritable & Gen Inv Bk	6.25	Yorkshire Bank	6.25
Bank of Scotland	6.25	•Hill Samuel	6.25		
Barclays Bank	6.25	C. Hoare & Co	6.25	• Members of London Investment Banking Association	
Brit Bk of Mid East	6.25	Hongkong & Shanghai	6.25	* In administration	
•Brown Shipley & Co Ltd	6.25	Julian Hodge Bank	6.25		
Citibank NA	6.25	•Leopold Joseph & Sons	6.25		
Clydesdale Bank	6.25	Lloyds Bank	6.25		
The Co-operative Bank	6.25	Meghraj Bank Ltd	6.25		
Coutts & Co	6.25	Midland Bank	6.25		
Credit Lyonnais	6.25	•Mount Credit Corp	6.25		
Cyprus Popular Bank	6.25	NatWestminster	6.25		
		•Rea Brothers	6.25		

EMS EUROPEAN CURRENCY UNIT RATES

Mar 4	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Netherlands	2.15214	2.11735	-0.00251	-1.62	4.62	12
Belgium	39.3960	38.8784	-0.0429	-1.31	4.30	10
Spain	162.493	160.458	+1.165	-1.25	4.23	9
Austria	13.4383	13.3002	-0.0163	-1.03	4.00	8
Germany	1.91007	1.89121	-0.00229	-0.99	3.95	10
Denmark	7.28580	7.30568	-0.00961	0.27	2.65	-2
Portugal	195.792	196.492	+0.053	0.36	2.56	-2
France	6.40608	6.49215	+0.0041	1.34	1.56	-11
Ireland	0.792214	0.815401	+0.001271	2.93	0.00	-20
NON ERM MEMBERS						
Greece	292.867	310.077	-0.308	5.88	-2.79	-
Italy	2106.15	2000.05	+0.93	-5.04	8.39	-
UK	0.786652	0.839440	+0.001313	6.71	-3.55	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ **PHILADELPHIA SE £/$ OPTIONS** £31,250 (cents per pound)

Strike Price	Calls Mar	Calls Apr	Calls May	Puts Mar	Puts Apr	Puts May
1.500	2.64	2.95	3.40	0.14	0.43	0.86
1.510	1.84	2.28	2.75	0.20	0.72	1.30
1.520	1.12	1.66	2.22	0.49	1.09	1.73
1.530	0.59	1.15	1.73	0.97	1.59	2.24
1.540	0.26	0.76	1.32	1.55	2.20	2.77
1.550	0.08	0.47	0.98	2.36	2.86	3.43

Previous day's vol., Calls 13,727 Puts 4,276. Prev. day's open int., Calls 179,746 Puts 191,402

■ **THREE MONTH EURODOLLAR** (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	94.75	94.75	+0.01	94.76	94.74	53,165	326,735
Jun	94.94	94.98	+0.02	94.97	94.93	151,236	409,604
Sep	94.96	94.97	+0.03	94.99	94.95	182,305	345,186

■ **US TREASURY BILL FUTURES** (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	95.25	95.23	-	95.23	95.22	231	4,645
Jun	95.40	95.40	-	95.41	95.38	1,715	6,218
Sep	95.39	95.38	+0.03	95.39	95.37	99	1,583

All Open interest figs. are for previous day.

■ **EUROMARK OPTIONS** (LIFFE) DM1m points of 100%

Strike Price	Calls Mar	Calls Apr	Calls May	Calls Jun	Puts Mar	Puts Apr	Puts May	Puts Jun
9650	0.20	0.34	0.35	0.37	0.01	0.02	0.03	0.05
9675	0.03	0.13	0.15	0.17	0.09	0.06	0.08	0.10
9700	0.01	0.03	0.04	0.06	0.31	0.21	0.22	0.24

Est. vol. total, Calls 9415 Puts 3784. Previous day's open int., Calls 367177 Puts 340470

■ **EURO SWISS FRANC OPTIONS** (LIFFE) SFr 1m points of 100%

Strike Price	Calls Mar	Calls Jun	Calls Sep	Puts Mar	Puts Jun	Puts Sep
9825	0.09	0.17	0.19	0.06	0.18	0.35
9850	0.02	0.07	0.12	0.09	0.24	0.43
9875	0	0.03	0.08	0.32	0.45	0.58

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 6845 Puts 4672

ALCOHOLIC BEVERAGES

[illegible]

BANKS, MERCHANT

[illegible]

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ELECTRONIC & ELECTRICAL EQPT - Cont.

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Cont.

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Cont.

[illegible]

FOOD PRODUCERS

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HEALTH CARE - Cont.

[illegible]

HOUSEHOLD GOODS

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

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LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

LEISURE & HOTELS - Cont.

OTHER FINANCIAL - Cont.

PROPERTY - Cont.

SUPPORT SERVICES - Cont.

AIM - Cont.

PAPER, PACKAGING & PRINTING

LIFE ASSURANCE

MEDIA

RETAILERS, FOOD

RETAILERS, GENERAL

TELECOMMUNICATIONS

TEXTILES & APPAREL

AMERICANS

CANADIANS

Toronto-Dom	11¾	+¾	12½	8½	3,474	4.1	
Trans Can Pipe	9½	+1/16	9½	7½	1,688	4.3	

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind		£30½	—	£34½	£30½	2,085	2.6	15.8
Barlow	♣	£8¼	-⅛	£10¼	£5¾	1,747	1.8	Φ
Gold Flds Prop R		150	+1	170	136	15.3	8.7	7.1
MK Props		85	-10	98	85	3.42	12.6	-
SASOL	♥	590	+13	648	475	3,398	2.3	-
SA Brews		£23⅛	+⅛	£28½	£16⅝	6,811	1.5	32.8
Standard Bank	□	£27¼	-⅛	£32¼	£20¼	3,358	1.8	20.3
Tiger Oats		1150	—	1270	850	1,738	1.6	Φ
Tongaat-Hulett	†	1030	-34	1247	672	875.0	1.8	20.6

TOBACCO

TRANSPORT

WATER

AIM

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FT-SE Actuaries Share Indices.

INVESTMENT COMPANIES

LEISURE & HOTELS

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PHARMACEUTICALS

PROPERTY

RETAILERS, GENERAL - Cont.

SUPPORT SERVICES

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Extel, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Φ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v P/e ratios are calculated under new ACT guidelines.
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1994-95.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1995.
K Yield based on prospectus or other official estimates for 1996
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1995-96.
R Forecast annualise yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all,
xc ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1350 a year for each security shown, subject to the Editor's discretion

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd
Pembroke Hall, Pembroke, Bermuda

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

Royal Bk of Canada O/S Fd Mgrs Ltd - Contd.

Sarasin Funds Mngmt (Guernsey) Ltd
PO Box 348, St Peter Port, Guernsey 01481 725021

Schroder Investment Mngmt (Guernsey) Ltd
PO Box 285, St Peter Port, Guernsey 01481 710831

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

Guinness Flight Select Funds Plc

Hambros Fund Managers (Ireland) Ltd

Henderson Crosthwaite Investment Co Ltd
32 St Mary at Hill, London, EC3

LGT Asset Management Ltd
(44) 171 710 4567 London

IRELAND (REGULATED)(**)

Chemical Ireland Fund Administrators Ltd

ISLE OF MAN (SIB RECOGNISED)

Ashburton Global Funds Ltd (1200)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

John Govett Management (Jersey) Ltd

LUXEMBOURG (SIB RECOGNISED)

Eagle Star - Global Assets Fund (a)

LUXEMBOURG (REGULATED)(**)

Nikko Capital Management

هكذا من الأصل

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Murray Universal, Sicav

Professional Investment Consultants

CA Securities Investment Fund Managt Ltd

Global Asset Management - Contd.

Republic Funds

Credit Commercial de France

The Dragon Fund Sicav

Pacific Basin Growth Fund

Scudder, Stevens & Clark Inc

Taipei Fund

Lloyds Bank Luxembourg

Lombard Odier Invest

Mercury Asset Management SA

Merrill Lynch Asset Management

World Trust Fund

Sabre Futures Fund

OTHER OFFSHORE FUNDS

OFFSHORE INSURANCES

AXA Equity & Law Intl Life Assce Co

MANAGED FUNDS NOTES

LONDON STOCK EXCHANGE

MARKET REPORT

Shares rise as rate hopes gather momentum

By Steve Thompson, UK Stock Market Editor

A growing conviction around the market that a quarter of a percentage point cut in UK interest rates, the third since December, is in prospect, saw London's stock market make further progress yesterday.

Mr Kenneth Clarke, the chancellor of the exchequer, is scheduled to meet Mr Eddie George, governor of the Bank of England, on Thursday to discuss monetary policy, and the feeling is that the Bank will rubber stamp a rate cut.

The interest rate optimism was not confined solely to London, dealers said. Wall Street made further rapid progress at the outset of trading yesterday, building on last Friday's 50-point rally and encouraging the bullish mood in UK markets.

A bullish feeling took hold of the market, with the FT-SE 100 index delivering an impressive performance, gradually building up a head of steam and closing only a fraction off the day's best levels.

It settled a net 15.9 ahead at 3,768.6, only 12.7 off its all-time closing high and 23.0 away from its all-time intra-day high.

Second line issues, measured by the FT-SE Mid 250 index, extended their recent excellent performance. The Mid 250 index ended the day 8.5 up at a record 4,244.9.

The Dow's rise on Friday and yesterday was attributed to the latest economic data, which added to hopes of a cut in US rates when the Federal Reserve Open Market Committee next assembles on March 26.

The Bank of France, meanwhile, meets on Thursday to discuss monetary policy, while the Bundesbank council is scheduled to hold its next meeting on Thursday week.

London was additionally sustained by news of yet another takeover, the expected £900m-plus agreed offer from Kvaerner, the Norwegian shipping and energy engineering group, for Trafalgar House, the UK conglomerate.

And traders held out high hopes that more takeovers or mergers could be around the corner. There were strong hints circulating yesterday that another predatory strike in the electricity sector could be imminent, with Yorkshire Electricity everybody's favourite target.

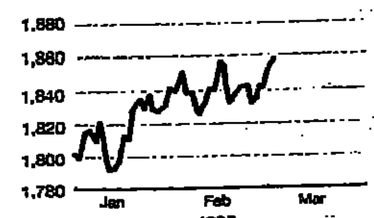
Adding to a general air of increasing bullishness in London was the expectation that a sizeable inflow of cash from funds managing "Peps" would drive markets higher for the rest of the month.

"The market feels very solid and looks set to take a tilt at the all-time highs," said one leading marketmaker, who also pointed to yesterday's relatively high level of activity.

Turnover at 6pm came out at 650.4m shares, well up on usual levels of activity on a Monday. Much of the action was concentrated in the non FT-SE 100 issues which accounted for 63 per cent of total turnover. Customer business on Friday was worth £1.66bn.

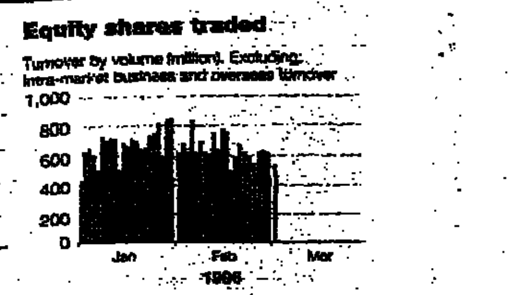
Among the individual stocks, food retailers captured two out of the top three spots among the FT-SE 100 constituents after a report suggested supermarket prices would rise by 4 per cent this year. Boots also featured strongly, amid hopes of a substantial share buyback while Argos, reporting later this month, rose on speculation about a special dividend.

FT-SE-A All-Share index



Equity shares traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



Indices and ratios

FT-SE 100	3768.6	+15.9
FT-SE Mid 250	4244.9	+8.5
FT-SE-A 350	1883.1	+7.1
FT-SE-A All-Share	1858.83	+5.80
FT-SE-A All-Share yield	3.75	(3.76)
FT Ordinary index	2791.3	+15.8
FT-SE-A Non Fins p/e	17.47	(17.41)
FT-SE 100 Fut Mar	3780.0	+26.0
10 yr Gilt yield	7.76	(7.81)
Long gilt/equity yld ratio:	2.19	(2.20)

Best performing sectors

1 Retailers, Food .... +1.7
2 Pharmaceuticals .... +1.2
3 Retailers, General .... +1.1
4 Transport .... +1.0
5 Chemicals .... +0.9

Worst performing sectors

1 Electronic & Elec .... -1.3
2 Gas Distribution .... -0.6
3 Electricity .... -0.5
4 Household Goods .... -0.4
5 Lesiure & Hotels .... -0.4

Hanson disposal mooted

The agreed deal between Trafalgar House and Norwegian group Kvaerner enlivened conglomerates, sparking talk of a further round of corporate activity in the sector.

A late rumour centred on Hanson, which closed a penny better, at 190½ with dealers pointing to an effective improvement of 4p since the shares went ex the 3p final dividend yesterday. Volume was above average at 13m.

Hanson, which is in the process of demerging into four separate companies, was said to be teeing up a big disposal, possibly its Imperial Tobacco business. The best City bet on the potential price tag was £3bn.

Elsewhere, traders picked out Powell Duffryn as a likely candidate for future deals. The group is known to be keen to slim down. A recent note from Kleinwort Benson highlighted Powell's potential for disposals. The shares put on 7 to 467p.

A note from Merrill Lynch picked out Harrisons and Crosfield as a possible contender for a Hanson-style demerger. Harrison added 2 to 164p.

A two week old sell note from ABN Amro Hoare Govett appeared to catch up with Lonrho, which came off 2½ to 183p in 2.2m traded.

As for Trafalgar, the shares traded 27m and ended just short of the 50p per share bid from Kvaerner, closing 3½ better at 48½p.

Drugs sparkle

Leading pharmaceuticals groups were bought ahead of figures this week and on product approval.

Zeneca, which reports on Thursday, lifted 21 to 1288p. The company is forecast to announce profits of around £850m, excluding restructuring.

It also said it was launching its Tomudex treatment for advanced colorectal cancer in the UK and that other European launches would follow. Merrill Lynch forecasts sales of £170m for the treatment by the turn of the century. Tomudex is a result of collaboration between Zeneca, BTG, the intellectual property rights company, and the Institute of Cancer Research. BTG shares rose 55 to 1305p.

Finally, the US District Court in Delaware ruled in Zeneca's favour in litigation brought by Schering over Zeneca's Casodex treatment for advanced prostate cancer.

Glaxo Wellcome, which is to announce tomorrow its first full-year figures since taking over Wellcome, added 17 at 916p.

Renewed optimism about a further reduction in interest rates this week prompted selected retailers to move forward, with the help of a buy recommendation from Williams de Broe.

The broker says the sector is at a historically low relative rating and it forecasts earnings and dividend growth of around 11 per cent in the financial year ending in 1997.

It particularly likes Boots, which gained 11 to 609p. Marks & Spencer - up 7½ at 436p - and Argos, which rose 17 to 631p.

On the other hand it maintains a sell recommendation on WH Smith, arguing that the dividend might not be "sacrosanct". The shares were flat at 422p.

Lloyds Chemists slipped a penny to 458p on confirmation by the Monopolies and Mergers Commission that it was launching an investigation into the proposed takeover by Unichem, which rose 9 to 252p.

Disappointment that the founders of Body Shop have no intention of taking the chain back into private hands saw the share price slip 2 to 146p.

There had been speculation that Gordon and Anita Roddick, who started the chain, would buy back shares for as much as 170p a share. The company also repeated a warning that full year profits would be below those of the previous year.

However, the shares were held up by their rating, which was at a 10 per cent discount to the broad market.

Food retailers jumped on a report's forecast of price increases by supermarkets.

Tesco, helped further by a strong buy recommendation from Fleming, avoided the negative impact of a forecast downgrade by NatWest Securities and moved forward 7½ to 278½p, the best performance among Footsie stocks. Argyll lifted 7 to 305.

Frozen foods specialist Perkins Foods jumped 3½ to 78½p following a solid set of results. The group's 7.5 per cent yield was said to have found favour with income funds and SGST reiterated its buy stance on the shares. AB Foods added 7 to 413p.

Airports group BAA shot forward 7 to 498p following a buy note from Credit Lyonnais Laing. The broker points to BAA's superior earnings growth and believes regulatory worries and capacity constraints at Heathrow have been overplayed. CLL has upgraded profit estimates for this year and next by 4 per cent.

British Airways stayed in demand ahead of today's traffic figures for February. The shares added 7 to 517p.

The oil majors were restrained as crude prices dipped, on renewed concerns that Iraq may accept a United Nations plan allowing Baghdad to sell oil in return for food and medicine. BP rose 1½ to 546½p and Shell Transport a penny to 853p.

A number of leading financial companies went ex-dividend yesterday, dragging down the face value of the shares and holding down the Footsie by almost 6 points.

However, once the gross dividends were stripped out the picture looked brighter. Barclays was up 1½ at 767p after the 20.6p dividend and Commercial Union was up 9½ at 608p, excluding the 22p dividend. Royal Insurance was up 2 at 375p after a 13.75p dividend and Abbey National was down 4½ at 562p ex an 18p dividend.

ICI, which jumped almost a pound in the past fortnight, gained another 15 to 922p, a new closing record high, on a press report that it intends to boost its International paint business by going on the acquisition trail and overhauling its financial and tax structures.

A combination of positive results from General Cable, plus weekend press comment on cable TV shares, revived interest in the sector. Cable added 1 to 183p and Nynex CableComms gained 3 to 105p.

The 1995 results from General Cable told a story of continued weak consumer penetration but contained some favourable operating news. For example, the group's cashflow bounced back into the black in the second half of last year.

Analysts were mostly sceptical of weekend press stories hinting at a merger between TeleWest Communications and Nynex. It was thought that the companies' 25 per cent combined share of the UK cable TV market would attract the unwelcome attentions of the competition authorities.

Building-related stocks continued to benefit from hopes for a cut in UK interest rates.

A strong market lately, glass giant Pilkington closed 4 higher at 218p, after 220p, at which level the shares were at one stage heading the Footsie rankings.

Laing (J.) jumped 15 to 281p on talk of a disposal of its housing arm.

FINANCIAL TIMES EQUITY INDICES

	Mar 4	Mar 1	Feb 29	Feb 28	Feb 27	Yr ago	*High	*Low
Ordinary Share	2791.3	2775.5	2756.4	2756.2	2745.7	2287.4	2791.3	2238.3
Ord. div yield	3.84	3.86	3.88	3.88	3.90	4.61	4.73	3.76
P/E ratio net	16.98	16.88	16.76	16.80	16.46	16.37	21.33	15.35
P/E ratio nil	16.75	16.65	16.56	16.58	16.25	15.91	22.21	15.17

*For 1995/96. Ordinary Share index since compilation: high 2791.3 4/03/96; low 49.4 26/6/40. Base Date: 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2773.6	2781.4	2786.4	2784.1	2785.6	2786.0	2786.5	2785.5	2791.6	2791.9	2779.6

	Mar 4	Mar 1	Feb 29	Feb 28	Feb 27	Yr ago
SEAQ bargains	36,845	33,405	31,428	32,378	31,461	26,236
Equity turnover (£m)†	-	1655.6	1699.6	1824.2	1888.6	1681.9
Equity bargains†	-	32,437	36,322	37,587	37,861	36,710
Shares traded (ml)†	-	543.3	614.6	640.0	635.0	644.8

†Excluding intra-market business and overseas turnover

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	780	Total Highs	158	Total contracts	24,746
Total Falls	376	Total Lows	31	Calls	11,961
Same	1,637			Puts	12,785

Mar. 4 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	3761.0	3778.5	+24.5	3783.5	3760.0	9012	44547
Jun	3764.5	3781.0	+24.0	3783.0	3764.0	1991	22012
Sep	-	3797.0	+24.0	-	-	0	2355

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	4255.0	4255.0	+20.0	4255.0	4255.0	20	2948
Jun	4271.0	4271.0	+19.0	4271.0	4271.0	20	1421

■ FT-SE 100 INDEX OPTION (LIFFE) (*3769) £10 per full index point

	3600 C	3600 P	3650 C	3650 P	3700 C	3700 P	3750 C	3750 P	3800 C	3800 P	3850 C	3850 P	3900 C	3900 P	3950 C	3950 P
Mar	181½	2½	134½	4	88½	8	47	18	18½	41½	5	81	1	131	1	181
Apr	181	14	139½	21½	102	33½	70½	52	45	76	25½	107	13½	145	6	188½
May	200	27	162½	39	127	53½	96½	72	69½	96½	47	124	32	159½	20½	198
Jun	218½	42	179½	52	146	68½	115½	87½	90	111½	67	137½	48½	170	33	205
Dec†	302½	95½			238	128½			186½	174½			137½	228½		

Calls 4,114 Puts 2,338

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

	3625 C	3625 P	3675 C	3675 P	3725 C	3725 P	3775 C	3775 P	3825 C	3825 P	3875 C	3875 P	3925 C	3925 P	3975 C	3975 P
Mar	155½	2½	108	5	64½	11½	30	26½	9	55	2½	98½	1	145½	1	196
Apr	162	19	123	29	88	44	59	64	38½	91½	20½	125	10	164½	4½	208
May	178½	31	141	43	108	59	79½	80	56	105½	37	136½	23	172	13½	211½
Jun	202	49			130½	75½			77	120			42	183½		
Sept†	243	76½			177	107½			125	152			86	208½		

Calls 579 Puts 2,943 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt cap (£m)	1995/96 High	1995/96 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
-	F.P.	51.2	512	498	CZW Eq (Brmda)	512	+3	-	-	-	-
-	F.P.	5.76	6½	5½	†Ballynatray	5½		-	-	-	-
7.5	F.P.	14.7	8½	5¾	Clubhaus	6		v-	-	-	11.1
-	F.P.	0.07	5¼	3¼	Clubhaus Wts	3¼		-	-	-	-
-	F.P.	11.8	90	63	†Dmatek	63	-4	-	-	-	-
-	F.P.	13.3	15	11	Ex-Lands Props	12	-½	Lv0.5	-	5.2	-
-	F.P.	0.19	13½	8½	Ex-Land Wts	8½		-	-	-	-
12	F.P.	55.0	16½	15	†Freepages	15	-½	-	-	-	-
-	F.P.	0.13	8	8	†Hbhm Prim Wts	8		-	-	-	-
-	F.P.	16.2	71	68	†Optical Care (B)	70		-	-	-	-
-	F.P.	1.13	105	100	†Revelation Prdty	105		-	-	-	-
54	F.P.	2.92	60	50	†Self Sealing Sys	50		-	-	-	-
175	F.P.	124.2	220	198	Siew Pharms	204	+2	-	-	-	-
-	F.P.	0.97	9	6	†Skyepharma Wrts	8		-	-	-	-
180	F.P.	113.5	189	183	Streamline	183		Wv7.7	1.7	5.3	13.8

† Alternative Investment Market. For a full explanation of all other symbols please refer to The London Share Service notes.

TRADING VOLUME

■ Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
3i†	451	425	+3
ASDA Group†	13,000	105½	+1
Abbey National†	2,500	562xd	-4½
Albert Fisher	332	46	+½
Allied Domecq†	2,500	514	+3
Anglian Water	198	574	+2
Argos†	512	634	+17
[illegible]	[illegible]	[illegible]	[illegible]

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. † Indicates an FT-SE 100 index constituent. All figures are rounded. Source: FT Extel.

FT GOLD MINES INDEX

	Mar 1	% chg on day	Feb 29	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (33)	2337.81	-0.1	2340.21	1700.78	1.42	-	2520.73	1686.31
■ Regional Indices								
Africa (16)	3156.30	+0.2	3149.62	2585.63	2.70	38.95	3553.98	2272.74
Australasia (5)	2861.03	+3.8	2758.04	1968.47	2.17	43.50	2327.34	1829.15
North America (12)	2032.39	-0.9	2051.22	1398.96	0.86	61.33	2186.39	1398.96

 Figures in brackets show number of companies. Basis US Dollars. Base Values: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition.

FT - SE Actuaries Share Indices — The UK Series

	Mar 4	Day's chge%	Mar 1	Feb 29	Feb 28	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3768.6	+0.4	3752.7	3727.6	3738.2	3001.9	3.90	2.06	15.55	25.03	1518.62
FT-SE Mid 250	4244.9	+0.2	4236.4	4215.0	4215.5	3394.7	3.47	1.74	20.69	35.56	1686.30
FT-SE Mid 250 ex Inv Trusts	4264.4	+0.2	4256.2	4234.1	4233.1	3408.2	3.59	1.79	19.40	37.89	1696.35
FT-SE-A 350	1883.1	+0.4	1876.0	1864.1	1868.3	1501.8	3.81	2.00	16.43	13.22	1550.77
FT-SE-A 350 Higher Yield	1880.3	+0.3	1875.2	1864.4	1872.7	1526.6	4.70	1.84	14.42	13.21	1284.90
FT-SE-A 350 Lower Yield	1891.0	+0.5	1881.9	1868.8	1869.6	1474.7	2.86	2.27	19.27	13.26	1300.28
FT-SE SmallCap	2063.97	+0.3	2058.71	2052.77	2050.25	1692.97	3.06	1.61	22.58	6.99	1674.35
FT-SE SmallCap ex Inv Trusts	2044.77	+0.3	2039.13	2033.02	2029.34	1673.62	3.27	1.90	20.17	6.52	1657.41
FT-SE-A ALL-SHARE	1858.83	+0.4	1852.03	1840.77	1844.44	1485.46	3.75	1.99	16.76	12.53	1554.93

■ FT-SE Actuaries All-Share

	Mar 4	Day's chge%	Mar 1	Feb 29	Feb 28	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(24)	3288.90	+0.1	3284.17	3257.26	3248.67	2566.55	3.94	1.51	21.04	22.56	1393.62
12 Extractive Industries(6)	4174.22	+0.1	4171.31	4162.10	4181.28	3384.42	3.80	2.39	13.74	85.48	1221.49
15 Oil, Integrated(3)	3333.25	+0.2	3327.65	3295.72	3277.87	2561.30	4.14	1.35	22.29	16.24	1445.01
16 Oil Exploration & Prod(15)	2249.11	+0.1	2247.99	2234.47	2257.98	1901.15	2.18	1.41	40.70	0.00	1335.00
20 GEN INDUSTRIALS(276)	2075.29	+0.2	2071.66	2059.45	2058.11	1783.76	4.00	1.89	16.58	4.94	1117.03
21 Building & Construction(34)	1108.94	+0.3	1105.57	1085.25	1081.35	907.56	3.64	2.02	16.95	1.16	914.63
22 Building Matls & Merchs(23)	1914.63	+0.2	1911.68	1901.89	1903.24	1685.03	3.91	2.03	15.74	0.61	950.52
23 Chemicals(23)	2557.09	+0.9	2533.87	2524.97	2520.04	2113.65	3.90	2.02	15.82	1.34	1191.43
24 Diversified Industrials(21)	1795.68	+0.4	1788.40	1774.60	1788.85	1758.62	5.49	1.48	15.40	12.91	988.95
25 Electronic & Elect Equip(38)	2333.91	-1.3	2364.61	2351.99	2363.01	1873.75	3.08	1.84	22.00	2.65	1198.76
26 Engineering(71)	2339.32	+0.3	2332.54	2318.88	2318.51	1727.76	3.22	2.34	16.60	3.73	1402.51
27 Engineering, Vehicles(13)	2663.33	+0.7	2645.50	2629.07	2613.94	2094.47	3.85	1.26	25.80	0.23	1358.05
28 Paper, Pckg & Printing(28)	2731.09	+0.3	2723.07	2710.29	2714.33	2778.90	3.67	2.52	13.50	0.61	1120.47
29 Textiles & Apparel(19)	1485.44	-0.3	1489.95	1506.22	1503.77	1399.75	4.69	1.75	15.27	7.42	895.36
30 CONSUMER GOODS(81)	3630.00	+0.8	3599.54	3594.56	3606.24	2826.38	3.81	1.74	18.84	11.89	1321.51
32 Alcoholic Beverages(9)	2814.48	+0.5	2800.98	2801.39	2819.54	2532.54	4.32	1.67	17.34	28.48	1005.92
33 Food Producers(23)	2571.89	+0.6	2555.89	2538.60	2529.88	2329.63	4.24	1.70	17.30	4.90	1142.79
34 Household Goods(15)	2528.68	-0.4	2538.26	2528.59	2562.84	2502.25	3.78	2.15	15.41	2.27	950.24
36 Health Care(20)	1969.47	+0.7	1954.87	1945.75	1938.81	1610.28	2.65	1.82	25.94	2.54	1184.01
37 Pharmaceuticals(13)	5137.80	+1.2	5074.37	5076.42	5097.46	3527.95	3.23	1.69	22.96	12.95	1720.28
38 Tobacco(1)	4866.52	+0.6	4836.87	4841.11	4870.76	3524.84	4.93	1.94	13.09	0.00	1177.36
40 SERVICES(253)	2351.54	+0.6	2337.26	2321.57	2325.31	1825.32	2.96	2.10	20.10	14.00	1212.41
41 Distributors(32)	2642.36	+0.3	2634.22	2620.41	2619.67	2272.84	3.70	1.83	18.49	4.27	963.25
42 Leisure & Hotels(23)	2931.64	-0.4	2942.46	2937.58	2907.16	2064.22	2.84	2.09	21.06	106.45	1560.27
43 Media(45)	3867.01	+0.4	3852.01	3826.78	3840.97	2704.36	2.18	2.13	26.86	15.44	1389.78
44 Retailers, Food(15)	1901.23	+1.7	1870.32	1854.90	1877.50	1769.85	3.84	2.41	13.52	2.85	1192.25
45 Retailers, General(43)	1949.91	+1.1	1928.88	1906.89	1909.34	1502.20	3.05	2.23	18.41	5.73	1102.50
47 Breweries, Pubs & Rest.(24)	2996.33	-0.2	3003.57	2985.45	3003.32	2114.87	3.30	2.08	18.21	15.72	1428.75
48 Support Services(49)	2125.33	+0.2	2121.34	2108.71	2102.21	1428.69	2.28	2.54	21.66	3.32	1339.61
49 Transport(21)	2344.28	+1.0	2320.81	2308.55	2307.58	2121.21	3.69	1.39	24.32	3.84	964.34
60 UTILITIES(33)	2484.97	+0.2	2479.06	2451.37	2459.51	2320.12	4.99	2.07	12.13	35.13	1054.49
62 Electricity(12)	2780.36	-0.5	2795.49	2771.44	2780.44	2414.04	5.00	2.60	9.63	137.11	1361.42
64 Gas Distribution(2)	1591.45	-0.6	1601.05	1581.85	1583.08	1933.76	7.53	1.37	12.10	0.00	798.45
66 Telecommunications(7)	2055.92	+0.8	2039.01	2017.32	2022.30	1923.77	4.11	1.76	17.33	0.15	930.64
68 Water(12)	2110.18	+0.5	2099.73	2064.10	2080.78	1805.83	5.78	2.60	8.32	3.61	1144.33
69 NON-FINANCIALS(667)	1965.50	+0.5	1956.63	1944.59	1946.88	1608.43	3.78	1.89	17.47	11.38	1474.64
70 FINANCIALS(108)	2955.51	.....	2955.51	2936.56	2952.63	2099.53	3.94	2.50	12.69	34.49	1262.88
71 Banks, Retail(8)	4185.19	.....	4186.33	4157.57	4192.31	2738.10	3.70	2.83	11.94	65.81	1362.97
72 Banks, Merchant(6)	3529.67	-0.3	3541.01	3532.68	3535.82	2900.22	2.65	2.40	19.66	0.00	1106.52
73 Insurance(24)	1431.75	.....	1432.37	1419.76	1422.14	1168.78	5.39	2.94	7.90	21.10	1064.99
74 Life Assurance(6)	3594.87	+0.3	3583.56	3547.42	3565.98	2423.09	3.88	1.53	21.04	0.00	1464.56
77 Other Financial(23)	2539.02	-0.2	2543.04	2533.52	2526.28	1827.82	3.58	1.91	18.24	13.40	1431.15
79 Property(41)	1452.02	+0.1	1450.59	1451.27	1451.14	1373.45	4.31	1.31	22.25	3.48	882.69
80 INVESTMENT TRUSTS(126)	3143.90	+0.3	3134.95	3128.23	3134.57	2557.99	2.15	1.04	56.05	10.77	1091.71
89 FT-SE-A ALL-SHARE(901)	1858.83	+0.4	1852.03	1840.77	1844.44	1485.46	3.75	1.99	16.78	12.53	1554.93
FT-SE-A Fledgling	1159.32	+0.2	1157.05	1153.90	1152.02	958.25	2.93	2.20	19.34	4.12	1202.02
FT-SE-A Fledgling ex Inv Trusts	1161.30	+0.2	1158.65	1154.90	1152.41	957.69	3.21	2.37	16.43	4.33	1203.37

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	3758.8	3760.0	3766.9	3765.1	3765.7	3766.4	3766.9	3764.7	3769.0	3769.9	3757.7
FT-SE Mid 250	4234.1	4236.4	4237.9	4238.9	4239.9	4241.1	4241.6	4241.7	4244.0	4244.9	4234.1
FT-SE-A 350	1878.2	1878.9	1881.7	1881.1	1881.4	1881.8	1882.1	1881.2	1883.1	1883.5	1877.9

Time of FT-SE 100 Day's high: 3:50 PM Day's low: 9:21 AM. FT-SE 100 1996 High: 3781.3 (02/02/96) Low: 2954.2 (23/01/95).

■ FT-SE Actuaries 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrcn	1135.3	1132.2	1128.0	1127.0	1127.5	1127.5	1127.5	1127.6	1127.9	1127.9	1133.4	-5.5
Pharmaceuticls	5038.6	5040.4	5081.9	5077.9	5071.9	5072.4	5074.7	5085.1	5080.2	5081.5	5018.7	62.8
Water	2099.2	2104.6	2102.9	2103.6	2096.4	2097.5	2098.1	2101.0	2103.3	2103.1	2092.5	10.6
Banks, Retail	4232.7	4234.9	4227.9	4230.9	4237.4	4237.0	4237.0	4233.3	4241.9	4236.6	4239.8	-1.2

Additional information on the FT-SE Actuaries Share Indices is published in Saturday issues.

The FT-SE Actuaries Share Indices are calculated by FT-SE International Limited in conjunction with the Faculty of Actuaries and the Institute of Actuaries. The FT-SE Actuaries Share Indices are calculated in accordance with a standard set of ground rules established by FT-SE International Limited in conjunction with the Faculty of Actuaries and the Institute of Actuaries. "FT-SE" and "Footsie" are trademarks of the London Stock Exchange and the Financial Times Limited and are used by FT-SE International Limited under licence. Auditor: The WM Company. † Sector P/E ratios greater than 80 and net covers greater than 30 are not shown. ‡ Values are negative. DELETION: SelecTV (Fledgling). INSERT: Owen & Robinson (Fledgling).

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WORLD STOCK MARKETS

EUROPE

AUSTRIA (Mar 4 / Sch)

BELGIUM/LUXEMBOURG (Mar 4 / Frs.)

CZECH REP (Mar 4 / Koruna)

DENMARK (Mar 4 / Kr)

FINLAND (Mar 4 / Mks)

FRANCE (Mar 4 / Frs.)

GERMANY (Mar 4 / Dm.)

GREECE (Mar 4 / Drachma)

ITALY (Mar 4 / Lire)

NETHERLANDS (Mar 4 / Fls.)

NORWAY (Mar 4 / Kroner)

POLAND (Mar 4 / Zloty)

PORTUGAL (Mar 4 / Escudo)

SPAIN (Mar 4 / Pts.)

SWEDEN (Mar 4 / Kronor)

SWITZERLAND (Mar 4 / Frs.)

TURKEY (Mar 4 / Tk Lira)

PACIFIC

JAPAN (Mar 4 / Yen)

AUSTRALIA (Mar 4 / Aust$)

HONG KONG (Mar 4 / H.K.$)

INDONESIA (Mar 4 / Rupiah)

MALAYSIA (Mar 4 / MYR)

NEW ZEALAND (Mar 4 / NZ $)

SINGAPORE (Mar 4 / S$)

SOUTH KOREA (Mar 4 / Won)

TAIWAN (Mar 4 / TW $)

THAILAND (Mar 4 / Baht)

NORTH AMERICA

CANADA

TORONTO (Mar 4 / Can $) 4 pm close

MONTREAL (Mar 4 / Can $) 4 pm close

AFRICA

SOUTH AFRICA (Mar 4 / Rand)

INDICES

INDEX FUTURES

CAC-40 (200 x Index)

DAX

OMX

SOFFEX

US INDICES

Financial	67.26	68.15	68.63	67.69 (23/2/96)	41.64 (3/1/95)	67.69 (23/2/96)	8.64 (1/10/74)
NYSE Comp.	345.18	342.80	344.62	351.70 (12/2/96)	250.73 (3/1/95)	351.70 (12/2/96)	4.46 (25/4/42)
Amex Mkt Val	563.44	562.00	566.66	570.16 (22/2/96)	433.12 (6/1/95)	570.16 (22/2/96)	29.31 (9/12/72)
NASDAQ Cmp	1086.05	1100.05	1107.54	1117.79 (23/2/96)	743.58 (3/1/95)	1117.79 (23/2/96)	54.87 (31/10/72)

RATIOS

	Mar 1	Feb 23	Feb 16	Year ago
Dow Jones Ind. Div. Yield	2.15	2.12	2.16	2.73
	Feb 28	Feb 21	Feb 14	Year ago
S & P Ind. Div. yield	1.89	1.88	1.87	2.36
S & P Ind. P/E ratio	20.83	19.90	20.07	19.60

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Compaq	22,622,600	41⅛	-9
Bay Network	14,123,700	35¾	-5¼
LSI Logic	8,115,700	25¼	-2
IBM	8,041,300	118¼	-4⅜
K-Mart	7,461,200	7½	+⅛
Hanson	7,125,900	14⅞	+⅛
Micron Tech	6,108,200	31¼	-¾
EMC	5,435,000	21⅛	-⅛
Digital Eqp.	4,721,400	64½	-7½
Horizon CMS	4,232,200	17⅝	-5⅜

TRADING ACTIVITY

● Volume (million)

	Mar 1	Feb 29	Feb 28
New York SE	474.61	448.213	447.000
Amex	26.467	22.683	27.409
NASDAQ	599.334	545.836	558.713
NYSE			
Issues Traded	3,067	3,086	3,097
Rises	1,423	888	1,206
Falls	896	1,472	1,101
Unchanged	748	726	790
New Highs	110	76	137
New Lows	22	32	22

	Open	Latest	Change	High	Low	Est. vol	Open Int.
S&P 500							
Mar	647.35	647.60	+0.25	648.90	646.35	106,003	166,493
Jun	654.00	653.70	+0.40	654.60	652.40	11,060	51,760

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Nikkei 225							
Mar	20160.0	20170.0	+10.0	20240.0	20110.0	14,229	110,191
Jun	20280.0	20190.0	-10.0	20300.0	20150.0	27,002	163,377

Open interest figures for previous day.

● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation.

TOKYO - MOST ACTIVE STOCKS: Monday, March 4, 1996

	Stocks Traded	Closing Prices	Change on day
Nippon Metal Ind	8.5m	584	+68
Shinko Electric	7.7m	810	+2
NHK Spring	7.1m	633	+2
Toshiba Corp	6.6m	804	-9
Sumitomo Mtl Ind	5.8m	285	-2
Mitsubishi Hvy	3.1m	852	
Hitachi	3.1m	1070	
Kawasaki Hvy Ind	3.1m	519	+8
Oki Electric Ind	3.0m	925	-6
Pacific Metals	2.8m	670	-6

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are based on data from Jan 1 1995. ‖ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

4 pm close March 4

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1995/96 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
22⅛	12⅛	AAR	0.48	2.4	24	1075	20½	20	20⅛	+½
48¼	35	AMP	1.00	2.3	22	3081	43⅛	42⅞	43⅛	+⅝
89¾	53⅞	AMR			35	4223	89½	88⅝	89¼	+¼
50½	36⅞	ASA	2.00	4.5	29	1024	45⅞	44½	44½	-1⅝
44¾	30¾	AbbtL	0.96	2.2	20	14522	44	42⅝	43¾	+1¾
18⅞	12	Abitibi Pr x	0.40	2.8	7	1269	14¼	14	14⅛	
30⅝	21	ABM Ind	0.70	2.3	16	216	u30⅝	29¾	30½	+1
17½	13⅛	Acptocein			10	87	14¾	14⅝	14⅝	+⅛
50⅞	21⅞	ACE Ltd	0.56	1.2	11	2889	48¼	47⅞	48¼	+½
9⅞	8⅛	ACM Gvt In	0.90	9.4	8	248	9¾	9⅝	9⅝	
7⅞	6½	ACM GvOpp	0.66	8.7		131	7¾	7⅝	7⅝	
7½	5¾	ACM Gvt Sp	0.75	10.7		140	7⅛	7	7	-⅛
9⅛	7¾	ACM Gvt Se	0.90	10.0		285	9	8⅞	9	+⅛
9½	7⅞	ACM Man	0.80	8.8		385	9¼	9⅛	9⅛	-⅛
23¼	10¼	AcmeClv	0.52	2.7	4	118	19⅝	19⅜	19⅜	+⅛
38¾	6⅝	Acme Elect			56	78	6⅞	d6⅝	6¾	
34½	23¾	Acordia	0.72	2.6	15	109	28	27⅞	28	
16¾	10⅛	Acuson			47	868	15¼	14⅝	15⅛	+½
19⅝	15⅝	Adams Expr	0.36	1.9	0	480	19⅜	19¼	19⅜	+⅛
38⅞	16⅛	AdvMic			6	5551	19¼	18⅝	18¾	-⅜
10¼	5	Advest Grp	0.16	1.7	9	98	9½	9⅜	9⅜	-⅛
27½	16½	Advo Inc	0.10	0.5	23	1371	22⅜	21⅞	21⅞	-⅜
48¾	24.80	Aegon	1.28	2.9	16	49	44⅝	44⅜	44⅝	+⅞
5⅞	3⅜	Aerflx			9	209	5	4¾	4⅞	-¼
76⅞	46¾	AetnaL	2.76	3.6	36	2239	u76⅞	75⅛	76¼	+1
49½	31⅞	Aflac	0.52	1.1	14	1375	48⅞	47⅜	48⅝	+1
23⅜	16	Ahmnsn	0.88	3.7	7	6685	23½	22⅞	23½	+⅜
59½	43⅞	AirPrC	1.04	1.9	16	2579	54⅜	53⅞	54⅜	+⅛
29½	18⅜	Airbne Frt	0.30	1.1	26	2380	28	27⅝	28	+⅜
37⅜	19⅝	Airgas Inc			32	261	u37⅜	36⅝	37⅛	+⅝
18⅜	13⅜	Airlease	2.00	11.0	12	54	u18⅜	18⅛	18⅛	-¼
35⅝	24	AirTch			118	5686	32¼	31	32	+½
22¾	13½	Alaska Air	0.20	0.9	17	1133	22⅛	21⅞	22	-⅛
28½	17⅛	Albany Int	0.40	2.0	13	767	19⅞	19¾	19⅝	+¼

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4 pm close March 4

NYSE COMPOSITE PRICES

Continued from previous page

1995/96 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
10 5/8	8	SantaFeERs	0.16	1.8	100	1544	9 1/4	9	9	-1/8
18 1/4	9	SFeGd	0.05	0.3	47	8350	14 3/4	14 1/8	14 3/8	-7/8
38 5/8	30 1/2	SFePPipe	3.00	7.9	18	36	37 7/8	37 3/4	37 7/8	+1/8
86 1/2	24 1/4	SaraLee x	0.76	2.2	19	7290	34 3/8	33 5/8	34 1/8	+3/4
60 1/4	39 5/8	SBC Cm	1.65	3.1	17	8156	54 3/8	53 1/2	54	
28 5/8	20 1/2	Scana Corp	1.47	5.3	16	646	27 7/8	27 1/4	27 1/2	+1/4
11 1/4	5 7/8	SchawkA	0.26	2.9	31	13	9	8 7/8	9	
50 1/4	37 3/4	ScherarRP			22	860	44 1/2	44	44 1/8	-1/2
80 3/4	35 1/2	SchrPl	1.16	2.0	24	7679	59	57 5/8	58 1/2	+3/4
78	50 1/8	Schlmb	1.50	2.1	27	4055	73 3/4	72 3/4	73 1/8	+1/8
28	11 1/4	Schwab(C)	0.16	0.6	27	3854	27	26	26 5/8	+1/2
26 7/8	20 3/8	SchwMaud				1157	28 3/4	28 1/8	28 3/4	+1/2
24 7/8	11 3/8	SciAtl x	0.06	0.4	38	3697	17 1/2	16 1/2	17 1/8	+5/8
20	16 1/8	Scotsman	0.10	0.6	11	158	17 5/8	17 1/2	17 5/8	
43 1/2	26 7/8	Scripps x	0.52	1.2	25	900	43	42 1/8	42 3/4	+3/4
21 1/2	13 3/8	ScuddrNAsF	0.02	0.1		121	16 1/2	16 1/4	16 1/2	
11 7/8	8 5/8	ScuddrNEuF	0.16	1.4		31	11 3/4	11 5/8	11 5/8	+1/8
20	13 3/8	SeaCnB	0.70	4.2	1	z100	16 1/2	16 1/2	16 1/2	-1/8
16 1/4	14 5/8	SeaC1.4625	1.46	9.6		2	15 1/4	15 1/4	15 1/4	
67 3/4	23 5/8	S'gate			11	17008	63	58 3/4	58 3/4	-2 3/4
39 1/2	25 5/8	Seagrm	0.60	1.7	24	4288	35 5/8	34 1/4	35 1/2	+1 3/8
22 1/2	15 1/4	Seagull En			868	346	19 5/8	18 3/4	19 5/8	+1/2
32 3/8	18	Sealed Air			24	341	30 3/8	29 1/4	30 3/8	+1
50	30 3/8	SearsR x	0.92	1.9	13	14659	u50	47 7/8	49 1/8	+7/8
[illegible]										
10 7/8	7 5/8	Talleyind	0.42	5.6	30	39	7 3/4	7 5/8	[illegible]	
17 1/4	12 1/2	Talley Pf	1.00	6.0		32	16 7/8	16 1/2	[illegible]	
53	37 7/8	Tmbrds x	1.84	3.6	21	1287	51 1/8	49 5/8	[illegible]	
19 3/4	9 1/4	Tandem			15	3170	10	9 3/4	[illegible]	
64 3/8	34 1/2	Tandy	0.80	1.9	13	6257	43 1/4	42 1/4	[illegible]	
10 3/4	9	Taurus Mun	0.66	6.5		25	10 1/2	10 1/2	[illegible]	
3	1 3/4	TCCInd			87	5	2 5/8	2 5/8	[illegible]	
27	20	Teco Energ	1.06	4.1	17	635	25 5/8	25	[illegible]	
61 7/8	31 1/8	Tktrnx	0.60	1.4	16	1832	44 7/8	44	[illegible]	
30 3/8	24 1/4	TeleDa	0.93	3.1	3	1833	u30 5/8	29 3/4	[illegible]	
29 1/2	19 3/4	Teldyn	0.40	1.4	10	2738	29 1/4	28 7/8	[illegible]	
49 5/8	33 1/4	TeleEspSA	1.27	2.7	17	2327	46 7/8	46 3/8	[illegible]	
41 1/2	23	Telmex	0.87	2.7	10	15048	31 7/8	31 1/4	[illegible]	
55 3/4	39 7/8	Tmplnl x	1.20	3.0	6	1613	41	40 1/8	[illegible]	
22 1/8	16 5/8	TempltEmMk	0.27	1.3		270	20 3/8	20	[illegible]	
7 3/4	6 1/4	TempltGlob x	0.60	8.4		157	7 1/8	7	[illegible]	
7 1/2	6 3/8	TempltGlFd	0.60	8.3		560	7 3/8	7 1/4	[illegible]	
57 5/8	41 7/8	Tenneco x	1.80	3.1	13	2784	u57 7/8	56 5/8	[illegible]	
37 7/8	25 1/4	Teppco Pts	2.80	7.5	12	194	u37 7/8	37 1/2	[illegible]	
43	15	Teradyne			10	17425	19 1/2	19	[illegible]	
7 1/8	3 1/8	Terex	0.06	1.3	1	55	4 3/4	4 5/8	[illegible]	
14 7/8	9 3/4	Terra Inds x	0.12	0.9	6	680	13	12 5/8	[illegible]	
12	7 3/4	Tesoro			3	1159	8 1/2	8 1/8	[illegible]	
80 5/8	68 3/4	Texaco	3.20	4.0	31	4940	80 1/4	79 1/8	[illegible]	
64 5/8	30 1/2	Texas Ind	0.40	0.6	11	199	u64 5/8	62 3/4	[illegible]	
83 1/2	34 1/2	TxInst	0.68	1.4	8	12840	49 1/4	48 3/8	[illegible]	
[illegible]										
49	34 1/8	York Int	0.24	0.5	19	803	47 3/8	47	47 1/8	+1/8
4 1/2	2 1/2	Zapata	0.14	3.9	6	538	3 5/8	3 1/2	3 5/8	+1/8
12 1/8	5 7/8	ZenithEl			3	1043	6 7/8	6 3/4	6 7/8	+1/8
24 5/8	19 3/8	Zenith Nat	1.00	4.2	65	22	23 3/4	23 5/8	23 3/4	
7 1/8	6 1/8	Zenix Inc	0.72	10.3		212	u7 1/8	6 7/8	7	
18 1/4	12 5/8	Zero	0.44	2.4	18	388	u18 1/4	17 3/8	18	+1 5/8
26	15 7/8	Zurn Ind	0.40	1.9	16	138	21 3/8	21 1/4	21 3/8	+1/4
11 1/2	10 1/4	Zweig Fund	1.12	10.1		465	11 1/8	10 7/8	11 1/8	+1/8
9	7 7/8	Zweig Totl	0.84	9.5		1159	u9	8 3/4	8 7/8	

Price data supplied by Telekurs

Yearly highs and lows for NYSE reflect the period from Jan 1 1995. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. sls-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.

Dealings suspended.

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AMEX COMPOSITE PRICES

4 pm close March 4

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
[illegible]							

NASDAQ NATIONAL MARKET

4 pm close March 4

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
[illegible]							

AMERICA

Blue chips climb as tech stocks tumble

Wall Street

US share prices were mixed at midsession yesterday as blue chip issues added to Friday's strong gains while technology stocks continued their tumble, *writes Lisa Bransten in New York.*

Just after 12.30pm the Dow Jones Industrial Average rose more than 50 points, triggering the "downtick rule" which restricts program buying. The imposition of that trading restriction marked the ninth time in the past 10 sessions that trading had taken place under restrictive collars. In the first three days of last week, the collars were put on to stem a falling market, but on Friday, like yesterday, the restriction was introduced to slow the rising market.

By 1 pm, the Dow was 45.89 stronger at 5,582.45, the Standard & Poor's 500 slipped 4.64 at 649.01, and the American Stock Exchange composite was 1.77 weaker at 565.21. Volume on the New York Stock Exchange came to 227m shares.

The bond market, which had led the equity market through most of its ups and downs over the past several weeks, was mixed by early afternoon amid continued uncertainty about the health of the US economy. Consumer expenditure fell by 0.5 per cent in January, its biggest drop since August 1992, but some economists attributed the weakness to the blizzard of 1996, which struck that month.

Instead of looking at yesterday's relatively old data, investors on both stock and bond markets were looking ahead to Friday's release of figures on February employment.

Meanwhile technology shares were nearly flat by early afternoon after an extremely volatile morning. The Nasdaq composite, which is about 40 per cent in technology stocks, climbed nearly 6 points at the opening bell, only to fall nearly 3 points by late morning. Close to 1 pm, it was off 0.45 at 1,085.63.

In individual shares, Alumax slid $2¼ or 8 per cent at $33¾ after Kaiser Aluminum abandoned its attempt to merge with the company in a deal that valued Alumax at as much as $2.5bn. Shares in Kaiser Aluminum fell $⅝ or 3 per cent at $14⅞ on the news.

Tyson Foods fell $1¼ or 6 per cent at $21¼ after the poultry group announced that it expected market uncertainties and higher costs to cause second quarter net income to fall below analysts' estimates.

Abbott Laboratories added $1⅞ or 3 per cent at $43⅞ after the Food and Drug Administration approved the company's drug, ritonavir, for the treatment of Aids.

Canada

Toronto was weak in midsession trade after a morning in which computer problems had halted activity for almost two hours.

The TSE-300 composite index was 13.35 down by noon at 4,943.20 in volume of just 21.3m shares.

Analysts noted that the market was led lower by a 2.8 per cent slide in golds, sharply depressed by falling bullion prices.

Barrick Gold lost C$1⅛ at C$40⅛.

Mexico rises on upgrade

An upgrade from a US brokerage supported MEXICO CITY at the opening but the market then retreated on worries that domestic interest rates would rise soon. The IPC index was down 5.50 at 2,886.90 by midsession. CS First Boston upgraded its rating on Mexico to overweight from underweight and reduced Brazil to a slight underweight from overweight.

The broker said the decision had been made because Mexico had greater short-term potential than Brazil.

BUENOS AIRES followed through on Friday's 4 per cent rise and at midday the Merval index was up 6.74 or 1.3 per cent at 521.68.

Brokers said that the market was dependent in its movements at the present on the direction of US bonds. Last week the market was down 2 per cent.In SAO PAULO the Bovespa index was up 288.99 at 51,123 by midday.

MARKETS IN PERSPECTIVE

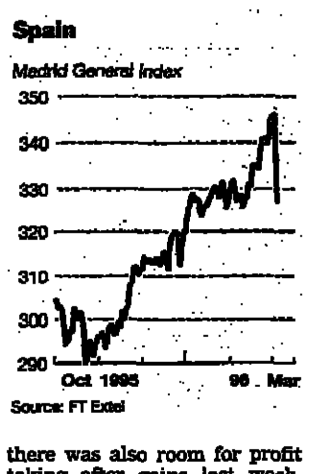
	% change in local currency †				% change sterling †	% change in US $ †
	1 Week	4 Weeks	1 Year	Start of 1995	Start of 1995	Start of 1995
Austria	+0.31	-0.85	+1.08	-2.56	+4.82	+2.40
Belgium	+2.36	-1.91	+23.84	+20.45	+29.34	+26.36
Denmark	+1.36	+0.54	+13.21	+12.90	+23.34	+20.49
Finland	-0.84	-0.69	+0.38	-4.68	+1.46	-0.88
France	+2.39	+1.42	+14.26	+10.64	+19.50	+16.75
Germany	+1.95	+1.18	+15.62	+15.47	+24.13	+21.27
Ireland	+1.07	+0.47	+21.49	+23.87	+29.17	+26.19
Italy	+2.45	-4.93	-3.72	-2.09	+4.11	+1.71
Netherlands	+0.80	+1.04	+24.75	+22.84	+32.07	+29.03
Norway	-0.37	+2.54	+12.01	+6.36	+14.69	+12.04
Spain	+1.37	+4.84	+27.19	+24.96	+35.62	+32.48
Sweden	+0.74	+6.03	+28.85	+33.24	+49.90	+46.45
Switzerland	+2.67	+3.04	+30.10	+29.30	+43.94	+40.61
UK	+0.37	-0.40	+23.13	+21.74	+21.74	+18.92
EUROPE	+1.31	+0.75	+19.98	+18.74	+25.06	+22.17
Australia	+2.59	+0.84	+19.14	+20.22	+20.81	+18.02
Hong Kong	-1.21	-2.22	+29.10	+34.13	+37.39	+34.22
Japan	-0.21	-3.17	+18.52	+0.74	-2.43	-4.68
Malaysia	+0.51	+1.43	+8.24	+10.16	+13.12	+10.51
New Zealand	+0.55	+1.74	+4.16	+9.72	+18.24	+15.53
Singapore	-1.89	-3.10	+22.82	+15.86	+22.46	+19.84
Canada	-0.52	-1.98	+19.95	+16.62	+22.35	+19.54
USA	-2.16	+1.61	+32.34	+40.20	+43.51	+40.20
Mexico	-2.52	-6.19	+76.10	+20.68	-19.86	-21.71
South Africa	-1 17	-5.23	+36.62	+10.38	+18.21	+15.48
WORLD INDEX	-0.69	-0.06	+24.26	+20.30	+22.65	+19.82

† Based on March 1st 1996.

EUROPE

Indecisive election result upsets Spanish traders

The indecisive Spanish election result upset traders, who had trimmed their books for an outright PP victory and the immediate interest rate cuts that were expected to follow. The general index dropped 18.63, or 5.4 per cent, to 327.34.



Mr Richard Turnill at Paribas, which saw the risks of this outcome in mid-February, said that the result was not a worst-case scenario, and that he expected the PP to be able to govern. However his colleague, Mr Alfredo Goyanes, said the prospect of delayed interest rate cuts hit banks and utilities, where Santander and Iberdrola each lost 6.8 per cent; Vallehermoso, the property company, ended Pta175, or 7.5 per cent, down at Pta2,165.

The biggest falls, 8.3 and 8 per cent respectively, were seen in the construction and building stocks, Cubiertas and FCC. Here, said Mr Goyanes, there had been hopes that a clear PP majority would have brought increased infrastructure spending programmes.

FRANKFURT consolidated as the dollar wobbled and bunds traded sideways. The Dax index closed 2.07 lower at an Ibis-indicated 2,486.83.

Turnover fell from DM10.8bn to DM7.4bn. Among the leaders, Volkswagen fell DM5.80 to DM561.50. There was talk of a US broker downgrade but there was also room for profit taking after gains last week. Another of the day's stories was that Adidas would bid for Reebok. Adidas declined comment, but its shares rose DM2.10 to DM98.50.

Meanwhile, one of last year's big growth prospects came badly unstuck: Fielmann, Europe's leading opticians chain, trimmed its 1996 forecast down from DM142m to DM121m, and its growth rate back from 43 per cent in 1995 to just 5 per cent this year. The shares fell DM13.20, or 15.7 per cent to DM70.80 in the post bourse, and Mr Stefan Muelheim at Dillon Read said there was likely to be more reaction from fund managers today.

ZURICH closed at an all-time high, the SMI index breaking through the 3,400 level, with Wall Street's early showing adding to the impetus provided by the benign interest rate environment. The SMI finished 15.1 higher at 3,400.6 as defensive issues continued to attract international investors.

Profit-taking, however, continued to weigh on Brown Boveri, down SFr15 to SFr1,437, as questions arose over the quality of ABB's 1995 results.

Among weak pharmaceuticals, Ares-Serono fell SFr45 to SFr920. The company said that an advisory panel to the US Food and Drug Administration had voted to recommend against full approval of its Serostim drug, used to treat physical wasting from Aids.

AMSTERDAM's financials were lifted by firm bonds as the AEX index rose 2.46 to 519.05.

EVC, Europe's largest maker of PVC, finished unchanged at Fl 55, after a session high of Fl 59.50, on a good set of 1995 figures, and the forecast that worldwide demand for its products should grow by about 4 per cent per annum.

Getronics rose Fl 4.90 or 4.7 per cent to Fl 110.10, adding to Friday's gains and following a number of brokers' upgrades. At the end of last week the computer services company reported a 22 per cent increase in its 1995 net profit and proposed a four-for-one share split.

Hoogovens was up Fl 1.60 at Fl 68.60 ahead of Thursday's results, with expectations of a 40 per cent rise in earnings per share.

Polygram gained 70 cents to Fl 98.90 following news that it was taking a 50 per cent stake in a new US television channel.

STOCKHOLM was spurred to another record close by foreign demand for Volvo and other cyclical shares. The Affärsvärlden index rose 16.2 to 1,902.8 as Volvo Bs climbed SKr8 to SKr153.

Pharmacia & Upjohn also put in a strong performance, up SKr8 to SKr313, on news that it would cut costs by $300m in addition to existing rationalisation plans.

PARIS consolidated, with the CAC-40 index easing 1.88 to 2,015.31 in modest turnover of under FFr4bn. Significant features included a rise of FFr14 to FFr198 in Ciments Français after the group reiterated that it was on course to strengthen its links with its parent, Italcementi. Valeo fell FFr1.20 to FFr229.50, although speculation resumed over a 28 per cent stake held by Cerus which the Italian company was believed to want to sell.

MILAN erased early losses on the strength of the lira which climbed to a 13 month high against the D-Mark. The real time Mibtel index finished 88 higher at 9,832.

Olivetti was a loser, down L18 to L881 after price cuts announced on Friday by Compaq, the world's largest personal computer maker.

San Paulo rose L152 to L9,726 in spite of Friday's results which some analysts found mildly disappointing.

DUBLIN registered an all time high as foreign demand pushed CRH up 5p to a peak of 542p ahead of results today. The Iseq index rose 1.64 to 2,349.69, also helped by Independent Newspapers, up 5p to a record 535p on the back of the latest circulation figures and results due later this month.

ISTANBUL was pleased that agreement had been reached between the country's leading centre-right parties regarding the formation of a new coalition government. The composite index rose 4,172.32 or 6.7 per cent to 66,308.71.

Turnover soared to a record TL26,800bn from Friday's TL17,210bn.

WARSAW remained in a bullish mood and closed at its highest level since August 1994.

Many analysts felt that, with plenty of institutional buying around, the equity market still had room to move higher, especially after the correction of the last few weeks, and forecast that it could touch 14,000 by the summer. The Wig index closed yesterday 2.9 per cent higher at 11,469.8, with turnover up 41 per cent to 194m zlotys.

BUDAPEST closed at an all time high, with the Bux index up 22.85 at 2,251.97. Turnover was Ft695.7m.

Written and edited by William Cochrane, Michael Morgan and John Pitt

FT-SE Actuaries Share Indices

THE EUROPEAN SERIES

Mar 4 Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1588.61	1586.80	1586.84	1587.21	1587.02	1586.95	1586.83	1587.02
FT-SE Eurotrack 200	1674.64	1673.11	1673.46	1674.56	1673.19	1673.71	1672.12	1672.30

	Mar 1	Feb 29	Feb 28	Feb 27	Feb 26
FT-SE Eurotrack 100	1590.91	1575.00	1574.98	1556.47	1551.65
FT-SE Eurotrack 200	1674.60	1656.66	1658.93	1643.14	1646.19

Base value 1000 (26/10/90); High/day: 100 - 1588.75; 200 - 1674.89 Low/day: 100 - 1586.32 200 - 1671.58. † Partial.

ASIA PACIFIC

Budget worries hit Nikkei as China A shares surge

Tokyo

Concerns over the budget bill and technical selling kept investors on the sidelines and the Nikkei average eased on corporate profit taking, *writes Emiko Terazono in Tokyo.*

The 225 index closed down 104.75 at 20,063.88 after trading between 20,061.89 and 20,221.55. Corporate investors liquidated their shareholdings ahead of the March book closing, dragging down the whole market.

Volume totalled 260m shares against 445.6m. Trust funds supported the index at lower levels, but most investors remained inactive. The Topix index of all first section stocks fell 8.79 to 1,556.04 and the Nikkei index 1.80 to 290.22.

In London, the ISE/Nikkei 50 index fell 0.65 to 1,354.69.

Worries over technical selling prevailed ahead of this Friday's settlements for March futures and options contracts. Long arbitrage positions against March futures had reached record highs, investors saw this as potential supply for the market and refrained from taking positions.

Banks, which face massive bad loan write-offs for the current business year, took profits in small lots. Meanwhile, uncertainty over the passage of the budget bill for next fiscal year through the parliamentary budget committee weighed on shares in the banking sector.

The budget contains state spending for the government's controversial housing loan liquidation plan, and members of the leading opposition party blocked off the entrance of the committee room to prevent voting. There had been calls from politicians for an increase in the share of the loss burden by the banks; aside from their part in setting up the jusen, or housing loan companies, and lending them large amounts of funds, politicians wanted the banks to take responsibility for introducing clients to the jusen.

Industrial Bank of Japan fell Y20 to Y2,660 and Dai-Ichi Kangyo Bank fell Y20 to Y1,960. Trust banks were also lower with Sumitomo Trust Bank down Y40 to Y1,360.

Tsumura, a drug maker known for its Chinese medicine, lost Y70 to Y1,750 on reports of deaths caused by one of its products. Green Cross, the blood products maker, which faces compensation payments for distributing HIV infected untreated products, lost Y24 to Y561.

In Osaka, the OSE average fell 64.25 to 21,586.52 in volume of 70.1m shares.

Roundup

China's local currency A shares, available only to domestic investors, rocketed after Beijing banned banks and securities hourses from trading in commodity futures, leaving some speculative funds to flow into equities.

SHANGHAI's A index jumped 9.3 per cent to 52.832 and SHENZHEN's A shares were up 6.6 per cent at 133.21 as the market reopened after a two week holiday for the Chinese lunar new year.

The enthusiasm did not, however, spill over into hard currency B shares, available to foreign investors. Shanghai's B index was 0.145 weaker at 52.238 and Shenzhen's B shares eased 0.51 to 61.69.

KUALA LUMPUR jumped 1.2 per cent to a 16 month high as market talk about a rerating of Malaysian shares prompted a round of program buying. The composite index rose 13.34 to 1,106.90. Strong interest in blue chips lured buyers back into second board stocks which had eased in the morning, leaving the second board index 1.7 por cent hither at 401.53.

SYDNEY was unable to react fully to the election victory by the Liberal National coalition party because of technical problems. However, before the gremlins struck, the market had shown good gains in reaction to the convincing win by Mr John Howard.

The market opened two-and-a half hours late, and the problems meant that the stock exchange authorities were unable to calculate any of the price indices until well after the close. It was estimated that the All Ordinaries index closed up 10.2 at 2,323.0.

HONG KONG finished well off steep early highs with the speech by Britain's prime minister, Mr John Major, aimed at boosting local confidence over the territory's 1997 handover to China, having little effect.

The Hang Seng index put on 59.11 to 11,254.05, off an intraday high of 11,311.95.

Smaller banks stole the show on earnings optimism after recent strong results of the finance sector. Dah Sing climbed HK$1.15 to HK$24.60. Wing Hang Bank leapt 90 cents to HK$32.90 and Dao Heng Bank 40 cents to HK$33.90,

MANILA dropped sharply as investors unloaded blue chips on fears of a rise in inflation, with the February data due to be announced today. The composite index fell 42.35 at a session low of 2,905.83. Turnover was 2.25bn pesos.

Brokers said that many investors flocked to Fortune Cement which made its market debut, closing at 11.75 pesos a premium on its its offer price of 8.25 pesos.

TAIPEI was mixed with buying in the plastics sector and selling in electronics. The weighted index made 0.33 to 4,855.23, off a low of 4,825.87. Turnover was a modest T$20.9bn.

Plastics rose 1.3 per cent as a group mainly on late buying following seasonal raw material price rises. Mosel was limit down at T$60.

WELLINGTON was slightly disappointed by the technical problems in Sydney. The NZSE-40 capital index ended firmer, rising 9.02 at 2,151.42.

Telecom and Lion Nathan were the main risers with the former rising 6 cents to NZ$6.65 and Lion by 4 cents to NZ$3.32.

SEOUL retreated late in the day after an expected intervention by the Stock Market Stabilisation Fund failed to materialise. The composite index fell 1.41 to 855.10 in thin volume of 17.2m shares. Banking and construction shares were mixed.

S Africa shares mixed

Johannesburg ended a quiet day mixed with industrials higher, prompting hopes of a cautious recovery this week, while golds drifted lower. Analysts forecast that the market could be enlivened as the March 15 futures expiry neared, although the March 13 budget was likely to cap activity. The overall index was 6.1 higher at 6,718.6, industrials put on 42.1 to 8,365.5 and golds slipped 33.6 to 1,763.5.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FT-SE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FT-SE International and Goldman Sachs in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY MARCH 1 1996 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div Yield	THURSDAY FEBRUARY 29 1996 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (61)	202.57	0.7	196.51	135.03	155.44	176.93	1.2	3.81	201.10	194.75	133.69	153.66	174.91	202.67	158.79	163.85
Austria (26)	187.12	0.5	181.52	124.73	143.56	143.42	0.9	1.60	186.23	180.35	123.80	142.29	142.14	199.28	168.11	186.31
Belgium (34)	212.82	0.5	206.45	141.86	163.30	159.25	0.9	3.31	211.72	205.04	140.75	161.77	157.77	215.81	172.86	172.86
Brazil (28)	158.57	2.3	153.82	105.70	121.67	287.15	2.2	1.61	154.94	150.05	103.00	118.38	280.86	170.25	86.06	129.29
Canada (101)	154.67	0.7	150.03	103.10	118.68	153.28	0.4	2.45	153.63	148.78	102.13	117.39	152.61	158.71	125.84	126.39
Denmark (33)	303.41	0.3	294.33	202.25	232.81	235.31	0.7	1.61	302.54	292.98	201.12	231.16	233.69	305.17	252.41	262.48
Finland (24)	184.32	0.5	178.80	122.86	141.43	176.32	0.8	1.96	183.44	177.64	121.95	140.16	174.97	276.11	171.13	186.11
France (98)	190.94	0.9	185.22	127.28	146.51	151.48	1.3	3.08	189.23	183.26	125.80	144.59	149.55	191.17	161.63	164.34
Germany (60)	173.79	0.7	168.58	115.85	133.35	133.35	1.1	1.83	172.55	167.10	114.71	131.84	131.84	173.79	142.25	151.42
Hong Kong (59)	437.75	0.8	424.64	291.80	335.89	434.52	0.8	3.28	434.11	420.41	288.60	331.70	430.90	451.19	323.87	339.07
Ireland (16)	260.24	0.7	252.45	173.48	199.68	233.07	0.8	3.33	258.47	250.31	171.83	197.49	231.18	262.70	205.44	214.74
Italy (59)	76.58	0.3	74.28	51.05	58.76	89.31	0.7	1.69	76.32	73.91	50.74	58.31	88.74	82.71	65.45	75.68
Japan (482)	149.59	0.1	145.11	99.71	114.78	99.71	0.3	0.76	149.50	144.78	99.39	114.23	99.39	164.82	137.56	137.56
Malaysia (107)	529.77	1.3	513.91	353.14	406.49	519.32	1.2	1.62	523.00	506.49	347.69	399.61	513.39	561.96	425.77	499.07
Mexico (18)	1108.65	2.6	1075.45	739.02	850.67	9202.57	2.2	1.51	1080.47	1046.35	718.29	825.56	9001.78	1237.14	647.81	809.42
Netherland (19)	279.83	0.2	271.45	186.53	214.72	211.01	0.6	3.25	279.25	270.43	185.64	213.37	209.72	283.23	225.62	225.62
New Zealand (13)	81.39	-0.1	78.95	54.25	62.45	64.12	-0.2	4.65	81.45	78.88	54.15	62.23	64.24	85.49	72.39	73.45
Norway (33)	238.83	1.7	231.68	159.21	183.26	208.16	2.0	2.29	234.87	227.46	156.14	179.46	203.99	243.79	202.76	211.60
Singapore (44)	446.30	-0.6	432.93	297.50	342.45	290.40	-0.6	1.39	448.86	434.66	298.40	342.96	292.11	465.21	346.10	353.99
South Africa (45)	388.84	-0.5	377.20	259.20	298.38	331.03	0.1	3.13	390.81	378.47	259.81	298.61	330.57	437.76	308.13	308.13
Spain (37)	174.82	-0.3	169.59	116.54	134.14	164.43	0.1	3.66	175.32	169.78	116.55	133.96	164.32	175.88	124.10	133.48
Sweden (47)	338.45	0.7	328.31	225.61	259.69	338.90	0.9	2.26	336.16	325.55	223.48	256.85	335.92	342.56	232.23	243.07
Switzerland (38)	232.27	0.5	225.32	154.83	178.22	173.29	0.9	1.57	231.19	223.89	153.70	176.65	171.78	239.55	171.94	173.20
Thailand (46)	179.35	0.0	173.97	119.55	137.61	175.55	0.0	2.00	179.42	173.76	119.27	137.09	175.55	193.95	130.15	147.64
United Kingdom (205)	231.70	0.5	224.76	154.45	177.78	224.76	0.7	4.06	230.54	223.26	153.26	176.15	223.26	235.50	193.41	194.60
USA (631)	263.24	0.5	255.35	175.47	201.98	263.24	0.5	2.20	261.90	253.63	174.11	200.11	261.90	269.11	197.20	198.91
Americas (778)	240.10	0.8	232.91	160.05	184.23	201.83	0.5	2.20	238.79	231.25	158.75	182.45	200.76	245.54	180.00	182.06
Europe (730)	206.42	0.6	200.24	137.60	158.39	178.85	0.8	2.99	205.32	198.84	136.50	156.88	177.37	206.61	169.63	172.27
Nordic (137)	292.22	0.7	283.47	194.79	224.22	253.80	1.0	2.11	290.21	281.04	192.93	221.74	251.39	295.02	222.22	232.93
Pacific Basin (832)	163.36	0.2	158.47	108.89	125.35	111.98	0.4	1.19	163.07	157.92	108.40	124.59	111.50	171.87	146.97	146.97
Euro-Pacific (1562)	181.20	0.3	175.77	120.79	139.04	137.28	0.6	2.05	180.57	174.87	120.04	137.97	136.44	183.39	157.42	157.42
North America (732)	256.53	0.5	248.85	171.00	196.84	255.88	0.5	2.21	255.22	247.16	169.67	195.01	254.59	262.26	192.77	194.42
Europe Ex. UK (525)	187.74	0.6	182.12	125.15	144.06	152.62	0.9	2.41	186.71	180.82	124.12	142.66	151.22	187.97	152.92	158.14
Pacific Ex. Japan (350)	289.78	0.7	281.09	193.15	222.34	253.60	0.8	2.92	287.79	278.70	191.32	219.90	251.87	292.69	229.25	237.44
World Ex. US (1754)	182.51	0.4	177.04	121.66	140.04	141.45	0.6	2.07	181.84	176.10	120.89	138.94	140.56	184.71	157.80	157.80
World Ex. UK (2180)	204.98	0.4	198.85	136.65	157.29	171.73	0.6	1.93	204.14	197.69	135.71	155.98	170.76	207.64	167.83	167.83
World Ex. Japan (1903)	239.19	0.5	232.03	159.44	183.53	225.56	0.7	2.53	237.91	230.40	158.16	181.79	224.11	242.17	187.55	189.02
The World Index (2385)	207.37	0.4	201.16	138.23	159.12	176.52	0.6	2.13	206.49	199.97	137.27	157.78	175.51	209.73	170.18	170.18

 Latest prices were unavailable for this edition. Market closed 1/3/96: Thailand.

Europeans differ on many things.

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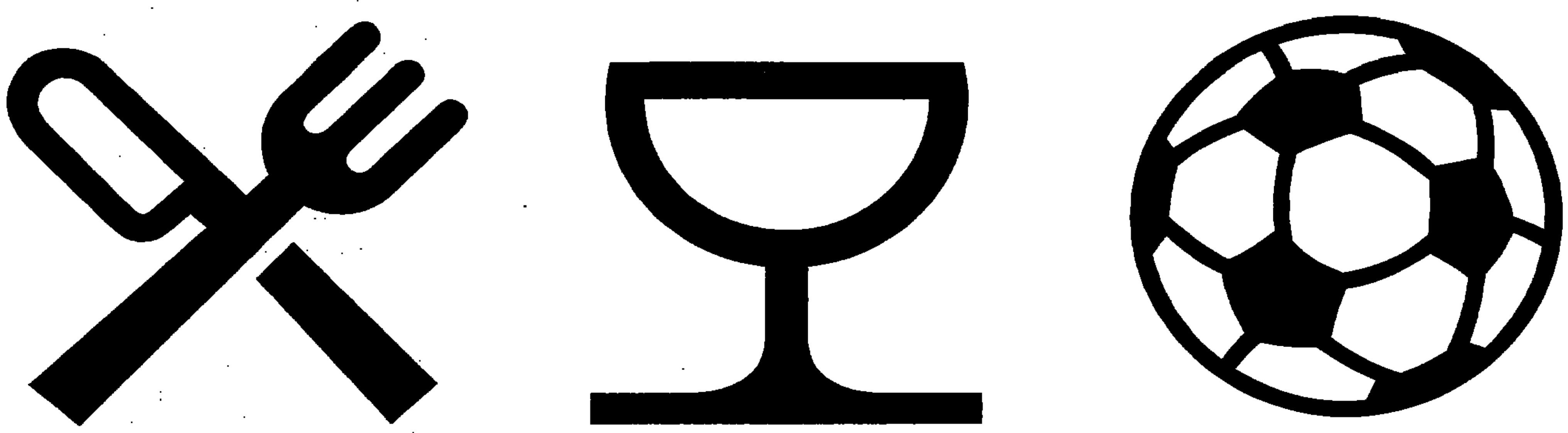


But they agree, to a surprising extent, on cars.

Ask any random sampling of Europeans which football club they favour, or what country makes the best wines – and there's sure to be a lively discussion. But calm usually returns when the conversation shifts to cars, a subject on which there is a remarkable degree of consensus.

This cheering fact emerged from the official 1995 car sales figures. The technically identical Opel/Vauxhall range was among the top three brands in 14 different European countries. Overall, it was the leader in Western Europe, with a 12.6% market share.

And these were not simply one-off results: 1995 was the fourth year in a row that Opel/Vauxhall was the Number One car brand in Western Europe, the 14th consecutive year in Switzerland – and the 27th in the Netherlands.

On the other hand, we know all too well that success of this kind is never a given – that the more times we're Number One, the harder we must work to stay there. We have to win customer loyalty not once, but day after day. However, with Tigra sales well above expectations (66,450 proud new owners last year), and the new Vectra off to a fast start; with Omega volume up nearly 8%, and more than 800,000 Corsa-based cars sold worldwide, we're confident we can maintain a strong market position this year.

In any case, while Europeans have every right to disagree on foods, wines, or whatever – we'll do our utmost to maintain their agreement on cars.

OPEL

McCANN-ERICKSON

Nuclear company on market with no profit record

By David Lascelles, Resources Editor

British Energy, the nuclear power generator which the government hopes to privatise next summer, will be offered to investors without ever having made a profit.

Accounts prepared to illustrate how the newly created company would have performed if it had been in existence for the past five years show an operating loss of between £50m and £550m ($76.5m and $841.5m) a year. In the financial year ending this month, British Energy is expected to lose about £150m.

Releasing the figures yesterday, Mr John Robb, chairman, declined to make any forecasts about future prospects. But BZW, the stockbrokers advising the government on the sale, issued a forecast which showed a profit of around £144m for the year ending March 31 1997, thanks to cost reductions and growth in output from British Energy's newest station, Sizewell B, which started up last year. Profits would rise steadily after that.

BZW said the company stood to show "a sharp increase in profits and cash flow", and predicted that the sale would realise between £2.4bn and £2.6bn. Only a collapse in the electricity price, which BZW thought unlikely, would push the company back into the red.

Other analysts were more sceptical about the outlook. But they stressed that the absence of profits should not inhibit the sale provided that British Energy held out the prospect of healthy returns and strong dividend growth.

Mr Robb and his executives stressed that British Energy's recent record showed it was reducing costs and improving efficiency. It had also got its environmental clean-up liabilities under control, and was well-placed to pay for them.

Mr Robb refused to comment on the state of negotiations over the level of debt British Energy should carry on its balance sheet. Ministers are keen to load debt on to the company to prevent an embarrassing repeat of the easy profits made from past electricity privatisations.

On the equally sensitive issue of directors' pay, Mr Robb said he favoured granting share options to staff to create incentives. They should not be confined to directors but "pushed right down the chain to middle management levels" in the £20,000-plus salary bracket. This would cover 2,600 people, or 39 per cent of the total staff. Mr Robb stressed, however, that this would have to be decided by the remuneration committee.

It was also likely that the government would impose a moratorium of one to two years on the granting of share options so that staff did not benefit from the sharp run-up in share prices which usually followed a privatisation.

The government will hold two golden shares in British Energy, one through the secretary of state for Scotland and the other through the trade and industry secretary. This will give it a veto in a takeover bid.

Mr Robb said he had been surprised by news that the government might consider selling British Energy direct to another company.

Beatles snub $225m offer for 'comeback'

By Alice Rawsthorn

The three remaining Beatles – Paul McCartney, George Harrison and Ringo Starr – have rejected a $225m offer from a group of US and German entrepreneurs to stage a "comeback" world tour.

Since the Beatles' final concert at Candlestick Park, San Francisco, in August 1966, the band has been inundated by offers to go back on the road. But none were as generous as the latest bid to pay them $75m each for a 22 night tour of the US, Japan and Europe this summer.

Paul McCartney said yesterday that the three were rejecting the offer because they did not want to reform the band without John Lennon, who was shot dead in 1980.

"People will say that we could get someone else to fill John's place, but it just wouldn't be the same," he added, describing the value of the proposed deal as "ridiculous".

The $225m offer follows a resurgence of "Beatlemania" after the launch of *Anthology I*, an album including some previously unreleased material. Although *Anthology I* was criticised by some purist Beatles fans, it was one of the most successful records of 1995, selling 3m copies in the US.

The bid to reform the Beatles comes at a time when other 1960s and 1970s rock acts have staged commercially successful tours. "Dinosaur" rockers are by far the most profitable part of the tour market as their older fans can afford high ticket prices. New acts often have to sell tickets more cheaply because their fans are younger and less affluent.

The Rolling Stones, friendly rivals to the Beatles in the 1960s, sold $121m of tickets for the US leg of their 1994 tour. Pink Floyd, another veteran 1960s British rock group, grossed $103m when touring the US that year.

Government preserves 'free' television sports

By James Harding and Raymond Snoddy

The British government yesterday backed down and agreed to preserve eight top national sporting events such as the Derby and the Football Association Cup final on terrestrial television.

The guarantee that the BBC or other terrestrial broadcasters such as ITV can continue to show the so-called "crown jewels" of British sport follows last month's defeat on the issue in Parliament.

It comes after years of government insistence that it would be unfair to block satellite broadcasters from buying exclusive rights because it would prevent sports bodies from getting the true market rate for television rights.

Mrs Virginia Bottomley, national heritage secretary, said yesterday the decision to bar satellite broadcasters from buying exclusive rights "took into account the view of the House of Lords," which voted 223 to 106 to keep the events available to all viewers.

All eight events are available on terrestrial television even though in 1990 the government removed most of the protection for listed events. Since then, it has been possible to show the listed events exclusively on a subscription sports channel like Mr Rupert Murdoch's BSkyB, but not on a pay-per-view basis.

Under the revised proposals, the government will prevent the eight events from being shown live on an exclusive basis either on subscription or pay-per-view services.

The events are: the FA Cup Final, the Scottish Cup Final, football World Cup finals, the Olympics, home test cricket matches involving England, the Grand National and Derby horseraces and the finals weekend of Wimbledon tennis.

Ministers yesterday acknowledged the overwhelming public pressure to keep the eight "listed" events on terrestrial television. Officials at the Department of National Heritage conceded: "The government just took its eye off the ball on this one – the weight of the argument, if not all the details of their amendments, was with the Lords."

Lord Inglewood, broadcasting minister, who announced the change of policy, said: "We have been open-minded on the matter. When we debated the issue in the Lords, our position was one of agnosticism."

Lord Donoughue, one of a cross-party coalition of peers that defeated the government last month, described yesterday's news as "a coup." Sports rights bodies, however, wanted to be free to decide their own broadcasting arrangements.

The BBC welcomed the news, but said it looked forward to today's debate on ensuring that exclusive live rights are sold separately from recorded highlights.

Britain's Independent Television Commission is closely watching the development of moving pictures on the Internet to see whether it is necessary or practical to introduce regulation.

The 1990 Broadcasting Act includes broad definitions of what sort of electronic services could be subject to licences from the ITC. It might be possible to take action against television-like Internet services which were obscene, or which broke other broadcasting regulations.

The act covers programmes "conveyed by means of telecommunications systems" for simultaneous reception or at different times in response to requests made by different users of the service.

Mr Jon Davey, the director of cable and satellite at the ITC, the regulatory body for all commercial television, believes that the act has provided a good definition of video on demand "but possibly also of Internet services".

The ITC will look at plans by leading cable operators, such as TeleWest, Nynex and Bell Cablemedia, to carry Internet services, probably from later this year.

At the same time, the ITC is looking at the implications of amendments to the EU broadcasting directive proposing that a "v-chip" be incorporated into any television sold in the EU. The chip would allow self-regulation by viewers of programmes which might be harmful to children.

Industry aims for more from less

By Peter Marsh in London

One of Britain's biggest engineering groups, T&N, plans a 17 per cent increase in output in the next two years from its worldwide plants making brakepads for cars.

It reckons that the investment of about £15m would have been more like £35m had the programme been carried out a decade ago.

"We can do more with less," said Mr Amar Sabberwal, the T&N director with responsibility for brakepads and other friction products.

That theme is being repeated elsewhere in manufacturing industry – with implications for the way economists interpret statistics for factory investment.

In recent months investment figures have been surprisingly muted, given that manufacturers generally have rebounded fairly strongly from the early 1990s recession. According to government figures manufacturing investment fell 9 per cent between the third and fourth quarters of last year, leaving spending a mere 7 per cent higher than during the last recessionary trough about five years ago.

One theory to explain the relatively weak investment figures is that they are a result of widespread changes in the way factories manage their workforces.

The theory is shared by government officials in the competitiveness unit in the Office of Public Service and economists such as Professor Patrick Minford of Liverpool University, who is on an informal panel of Treasury advisers.

According to this point of view – which is to be outlined in a government discussion paper in the next few weeks – factories need to invest less in the climate of the mid 1990s because they can crank out significantly bigger productive output from every pound they spend on capital equipment than was the case 10 – or even five – years ago.

One factor may be the increasing importance in the UK of Japanese-style working methods which have increased labour flexibility. In many plants, which frequently employ far fewer people than was the case a decade ago, workers are better trained and work more intelligently.

A second factor – proposed by economists at the Bank of England – is that because of the reduced costs of computer equipment, factories need to spend far less than 10 years ago for equipment capable of automating a given production operation.

The view about changes in organisation explaining the reduced need for investment is no more than a theory. As one government economist said: "It is a plausible idea, but we are still struggling to come up with a programme of research that will tell whether it is true."

In the case of T&N, one of the European leaders in brakepad production, the company intends to increase output from its 17 worldwide plants, of which four are in the UK, from £350m in 1994 to £410m next year. It also plans five new plants to increase volumes even more.

Mr Sabberwal says that relatively low capital sums are needed to boost production from existing facilities because of big changes in working practices over the past decade – many of them inspired by T&N's work with Japanese car and engineering companies.

The new methods require heavy resources to increase worker training. However, unlike investment in physical items such as plant, machinery and buildings, T&N reckons this is impossible to measure and so does not keep any statistics.

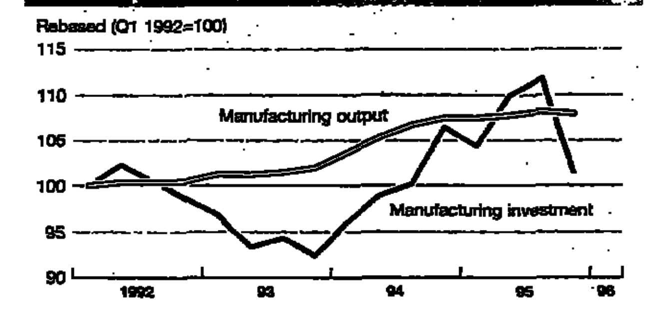
The statistical difficulties underline the problems of backing up the theory with hard evidence. However, at least one company – Lander Automotive, a privately owned automotive parts company based in Birmingham – has tried to quantify the benefits which it has obtained from higher degrees of training.

Lander, which makes components for customers such as Ford, Rover and Jaguar, has adopted new production techniques largely through participating in a Department of Trade and Industry-backed "Learning from Japan" programme.

In the past three years the company has doubled its annual sales to about £18m, investing a constant figure of about £500,000 a year in plant, machinery and buildings.

Over that period employees have risen from 200 to 320.

Manufacturing output and investment



Source: FT Extel

Britain to harden stance on European powers

By Robert Peston, Political Editor

Britain will harden its sceptical approach to European Union policy next week with a pledge to oppose increases in the powers of the European parliament and to strengthen the role of national parliaments in EU decision-making.

The publication of a white paper on the UK's approach to the forthcoming intergovernmental conference on reforming the EU's institutions will confirm the prevailing view in many European capitals that the UK is intent on blocking substantial reform.

The paper will say that the government sees no case for any increase in the powers of the European parliament although the option will be left open of giving the parliament greater oversight powers over the European Commission.

This is a significant shift from the previous formula used by Mr John Major, prime minister, that there should be "no massive increase" in the parliament's powers.

"That formula left open the idea that we would agree to substantial transfers of powers to Strasbourg", said a senior member of the government. "We were keen to scotch that".

The UK also wants an EU treaty amendment so that national parliaments have the right to see all EU proposals at "an early stage", to give them an opportunity to make submissions on the shape of EU legislation.

There are also important proposals on the workings of the European Court of Justice, although much of the detail will be published in a subsequent memorandum. The most radical suggestion is that an appeals mechanism should be incorporated into the court's procedure. Initial judgments would be made by the court "in chamber", with the possibility of appeal to the full court.

Another suggestion is that the right of the court to limit the retrospective effect of its judgments should be written into the EU's treaty. The UK also wants the principle established that where the court finds a member country has failed to implement an EU obligation but acted in good faith, no damages should be payable by that country.

Mr Major will try to achieve the delicate balance of appeasing the sceptical right of his party while appearing to make constructive proposals. In the EU's common foreign and security policy – the subject of an important speech today by Mr Malcolm Rifkind, the foreign secretary – the UK will support plans for the establishment of a "joint analysis unit" to support the EU when it acts as a body.

The government is building bridges with France by supporting its proposal for the appointment of an EU representative on foreign policy – although the UK is insistent that this individual should be a "servant" of the council of ministers and should not be seen as a *de facto* EU foreign minister.

However, the paper will repeat the government's determination to resist any extension of qualified majority voting and thus no dilution of the UK's veto. Other EU countries see this as an insuperable roadblock to reforming the EU's institutions to prepare for its enlargement.

"There is no possibility of the IGC reaching a conclusion until after the UK general election", commented a senior member of the European Commission.

Compensation for fishermen could hit $46m

By Deborah Hargreaves

The UK government could be forced to pay as much as £30m ($45.9m) in compensation to Spanish boat owners for banning them from fishing in UK waters if the European Court rules in favour of the fishermen today.

The court is expected to approve a compensation claim by more than 100 boat owners after the government tried to restrict foreign ownership of British fishing vessels seven years ago.

In 1991 the court ruled that the policy of refusing foreign-owned boats licences to fish in British waters was illegal.

A decision to grant the fishermen financial damages is likely to spark further political controversy over the European Union's Common Fisheries Policy. British Eurosceptic MPs have championed the UK fishing industry, whose representatives say that the Spanish fishermen were stealing their fish by registering in UK ports.

The Spanish fishermen and fishing companies registered at British ports to gain access to national fish quotas. The government tried to stop this in 1989 by restricting foreign ownership of boats, but the EU ruled that discriminatory.

Mr Barrie Deas, chief executive of the National Federation of Fishermens' Organisations, which represents the UK fishing industry, said foreign-owned boats now made up 20 per cent of British fishing capacity. "The Spanish have exported their over-capacity problems. Part of the reason we can't meet our target for fleet reduction is because of the number of foreign-owned vessels," he said.

Mr Deas said it highlighted a contradiction in the CFP that fishing quotas were set nationally, but could not be reserved just for national fishermen. "Forty per cent of the UK plaice quota is now owned by foreign flag ships," Mr Deas said.

Mr Guiseppe Tesauro, the European court's advocate-general, delivered an opinion last October saying that he believed that the fishermen were entitled to compensation. The court judges usually follow his advice although it is not legally binding.

If the judges rule in the fishermens' favour today they will be able to sue the government for compensation for lost earnings and expenses for the time they were forced to tie up in port while the ban was in place.

Tough talk from embattled PM

By John Kampfner in Seoul

In the Far East, as at home, Mr John Major has faced his perennial task of reconciling the seemingly irreconcilable. For the prime minister the problems of Hong Kong, during a visit less than 500 days before its handover to China, bore many of the hallmarks of the incessant battles he has had to fight during his five years of office.

On one side was the Chinese prime minister, Mr Li Peng, who made clear during talks in Bangkok last Thursday that his government would not brook what it calls interference in Hong Kong by a diminishing power. On the other are the many people in the territory, who through their pro-democracy elected representatives, have accused the British of leaving them to the mercy of Beijing from July 1997. Mr Major's response was to seek to straddle the two demands. His announcement yesterday that he was extending visa-free entry to all Hong Kong's permanent residents was arguably the best he could have done in the circumstances – 12 years after his predecessor, Mrs Margaret Thatcher, agreed to transfer sovereignty of Hong Kong to China under the terms of the joint declaration.

It was a tricky mission, with little to gain and much to lose. Mr Major handled it well. The only politicians who were not at least moderately pleased with his response were those who cannot be shaken from the view that the territory has been betrayed.

The issue of Hong Kong bears an uncanny resemblance to matters European, in which Mr Major has turned crisis management into a virtual art form, with two sides implacably opposed to each other. Some might also argue that his increasingly robust Euroscepticism – as with his defiant message to China – might serve to disguise the forces of history. Two years after 1997 is another deadly date for British Conservatives, the initial deadline for monetary union.

The abiding impression left by Mr Major's three-nation tour has been of a prime minister seeking the best means available to handle his country's steadily declining diplomatic weight.

If geo-strategic concerns are put to one side, the outcome of his trip could be seen as favourable for Mr Major. He left London last Wednesday after enduring three of the toughest weeks of his leadership. In that period he contrived to ensure that his ministers could escape, Houdini-style, from the Scott report on arms sales. At the same time he had to cope with the resumption of the IRA's bombing campaign and to broker a deal with Dublin on all-party talks for Northern Ireland that left some Conservative right-wingers talking of appeasement to terrorism.

But after his keynote speech in Hong Kong yesterday, and the polite reaction it received, he was positively chirpy.

The final leg of the trip today, devoted to selling the merits of British entrepreneurship in the search for yet more Korean investment, appeared best suited to the Major image: little glamour in such a cause, but much tenacity applied in its pursuit.

It will be those very attributes that Mr Major will rely upon as he returns to Westminster to face a long hard year in his attempt to keep his party in office.

Minister to stress security issues

By Bruce Clark, Diplomatic Correspondent

Mr Malcolm Rifkind, the foreign secretary, will today set out counter-proposals in the face of pressure from France and Germany to raise the European Union's profile in foreign affairs and security.

UK officials said his speech to IFRI, a foreign affairs think-tank, would include up to half a dozen practical suggestions for increasing the effectiveness of the EU's common foreign and security policy.

The speech will amount to a partial preview of the long-promised white paper which will set forth Britain's positions in the inter-governmental conference on the EU's future.

Mr Rifkind's suggestions are expected to include an upgrading of the secretariat which formulates the CFSP, and possibly closer links between that body and the EU's rotating presidency.

But the proposals are not expected to call in question the core British positions on the formulation of EU external policy: no extension of qualified majority voting to foreign and security issues, and no military dimension for the EU.

UK officials said yesterday that London drew a sharp distinction between the real effectiveness of foreign-policy decisions and the "efficiency" which a streamlined decision-making procedure would in theory provide. Any EU pronouncements that were known to have been opposed by one or more important member states could never be very effective, the officials said.

In the past, Britain has suggested drawing the EU and the 10-nation Western European Union, an embryonic defence club, somewhat closer together by holding summits of the two organisations in rapid succession.

UK NEWS DIGEST

Swedish insurer in electronic move

Skandia, the Swedish insurance company, yesterday became the first insurer to take advantage of recent rule changes and to link offices outside the UK with the London international insurance market's electronic networks.

The move marked a significant step for the market, which decided last week to grant insurers based elsewhere in Europe access to its trading and processing systems. The aim is to enhance the City of London's status as an insurance centre by becoming the hub of an electronic market place.

The London market, of which Lloyd's forms the largest part, provides cover for ships, aircraft, properties, other insurance companies and businesses around the world. Total premium income in 1994 was about £15bn ($22.95bn). The opening up of the market was spurred by the London International Insurance and Reinsurance Market Association (Lirma), a rival trading organisation to Lloyd's.

Ralph Atkins, Insurance Correspondent

Awkward start for Irish talks

Mr Gerry Adams, the president of Sinn Féin, was prevented from entering Belfast's Stormont Castle yesterday where British and Irish ministers were meeting in an attempt to relaunch the Irish peace process.

The "high-intensity" talks got off to an awkward start as most of the invited parties failed to attend. The pro-British Ulster Unionists and Democratic Unionists declined to co-operate in the talks. Sir Patrick Mayhew, the UK's Northern Ireland secretary, and Mr Dick Spring, the Irish deputy prime minister, were meeting to discuss the timetable for 10 days of talks to hammer out the conditions for elections. Sinn Féin has been told that it cannot take part until the IRA declares a new ceasefire. Mr David Trimble, the Ulster Unionist leader, said yesterday that he saw no need to go to Belfast. He would take part in one of his "regular" meetings with ministers at Westminster tomorrow. Mr Trimble warned that Mr John Major "would be a bloody fool" if he sought to overrule the wishes of the unionists on the issue of elections.

James Harding and John Murray Brown

Forces ban on gays 'will stay'

Britain is to cling doggedly to its ban on homosexuals serving in the armed forces, on the grounds that the admission of homosexuals would harm fighting capability. Mr Nicholas Soames, the armed forces minister, said yesterday that the government would "fight every inch of the way" to maintain the ban, which is expected to be tested in the European Court of Human Rights.

Speaking at the publication of a review of the Ministry of Defence's policy on homosexuals in the military, Mr Soames claimed said that homosexuality in the ranks would seriously lower morale.

George Parker, Westminster

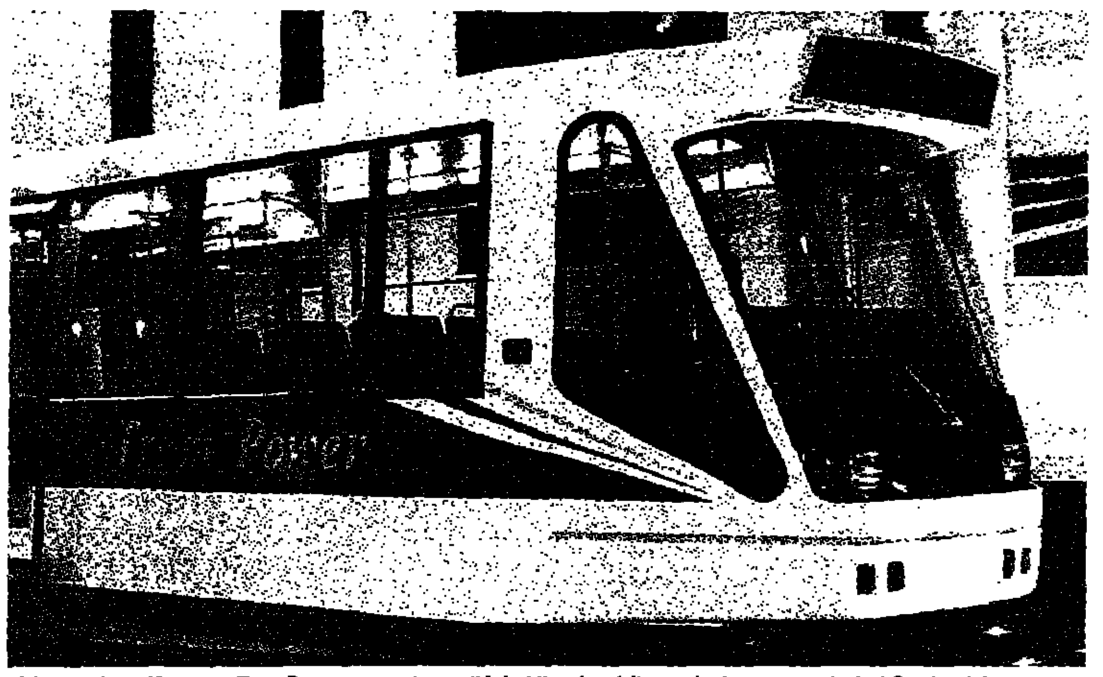
Construction bond issue launch

An international group of construction companies is about to launch the first eurobond linked to the UK government's private finance initiative, which aims to increase private sector involvement in infrastructure projects traditionally funded and managed by government departments.

The Road Management Group will seek to raise £165m through a 25-year eurobond offering. The group comprises Amec and Alfred McAlpine, of the UK; Brown & Root, part of the Halliburton group of the US; and Dragados, a Spanish road builder.

Antonia Sharpe, London

TECHNOLOGY



Weighing about 20 tonnes, Tram Power uses only one third of the electricity required to power a typical Continental tram

Just the ticket

Frances Barthorpe looks at an energy-efficient form of transport which could help ease city congestion

Electric trams have long been regarded as slow and outdated, but with their improved energy efficiency and zero emissions they are an increasingly attractive option for reducing pollution and congestion.

Throughout mainland Europe, trams are playing a big part in plans to reduce car dependency. In the UK, trams were phased out 35 years ago – apart from the holiday resort of Blackpool – but have recently returned to the streets of Manchester and Sheffield.

Unfortunately, the modern high-tech tram or light rail vehicle does not come cheap. In the UK the most recent example of a modern tram system, completed last October, is the Sheffield Supertram. Each tram cost £1m to produce.

Concern is mounting that the cost of modern light rail designs, most of which are based on heavy railcar technology, is spiralling out of control. Researchers are now looking for ways to use materials and technology employed in the aerospace and automotive industries for making light rail transport more affordable. If successful they could revolutionise light rail manufacture, and take it into the 21st century.

Euro-Projects, based in Loughborough, has just completed a year's study investigating the use of light composite materials and adhesive bonding for the rapid assembly of light rail vehicles.

The Euro-Projects team has extensive experience with composites and adhesives through previous work in the aerospace, automotive and marine industries and on Formula One racing cars.

Having secured partial funding from the UK's Department of Trade and Industry, Euro-Projects, together with ABB Transportation, Ciba Polymers, Ciba Composites and Loughborough University of Technology, carried out a feasibility study into a wide range of adhesives and materials. It investigated their mechanical performance, deflection, strength, durability and ease of assembly.

"Our idea was to produce something along the lines of a modern kit car, bonded together," says Gerry Boyce, managing director of Euro-Projects. "We put together modular sections to form a rigid, lightweight box structure, comprising an aluminium honeycomb core enclosed in an aluminium skin. These were bonded together using state-of-the-art adhesives."

The results of the study have been encouraging, and Euro-Projects is seeking further funding under the UK government's Technology Foresight Challenge, to develop a full-size demonstration model. The cost of development and full-scale testing is about £2m.

"We expect to produce large savings in both construction and operating costs, as well as making the manufacturing process more flexible," says Boyce.

One of the lightest trams currently in use is the Strasbourg Eurotram. Developed jointly by ABB and a consortium of other European groups, this modular light rail vehicle, which came into operation just over a year ago, includes a number of innovative features to increase productivity and reduce life cycle costs.

The basic vehicle comprises three passenger modules, weighing 40.5 tonnes each, and two cabs. More passenger modules can be added when necessary. Each vehicle has a lightweight aluminium structure with detachable exterior and interior panels, so minor body damage can be repaired quickly. Faults can also be isolated at module level, so instead of the whole vehicle having to be removed from service an exchange unit is substituted.

Another group rethinking light rail vehicle design is the UK consortium TramPower. This comprises Tram Research, PSV International, PowerGen, Blackpool Transport Services, and Pullman Design and Fabrication.

TramPower has used proprietary off-the-shelf items from the bus and coach industry to produce a tram at half the weight and half the price of comparable products based on heavy railcar technology.

Jim Boswell, PSV's managing director, says the group is unique in its use of truck components and suspension systems. "We have produced an ultra lightweight vehicle, of good quality construction, but at very low cost. And it is the first British-built tram in 40 years."

Weighing about 20 tonnes unladen, the tram consists of two interchangeable halves. It has a stainless steel body comprising a space frame similar to that used in bus building, made in sections of 3mm and 2mm gauge steel.

Because of its light weight, the tram – which is to be run on a trial basis in Blackpool this year – uses only one third of the electricity required to power a typical Continental tram.

The idea of using well-established automotive engineering techniques instead of conventional rail vehicle design principles and expensive rail components was that of Lewis Lesley of Liverpool's John Moores University.

"The group's aim is to produce a modular vehicle that can be built at an affordable price worldwide, wherever the need arises," says Boswell. "By using mass-produced, off-the-shelf products we have been able to keep development and finished product costs to a minimum."

Another ultra-light rail-based public transport system currently being tested and evaluated in towns and cities around the UK is the Parry People Mover.

It was invented in 1988 by John Parry, of Parry Associates, as a cheap, easily installed system for the rapidly growing cities of Africa, Asia and South America. But it was quickly realised there was a worldwide market for such a system.

There have since been nine prototypes involving different combinations of energy storage, power control and transmission. The PPM uses as many standard parts as possible, and is powered by energy stored in a revolving flywheel. With an unladen weight of six tonnes, it will carry up to 20 seated passengers and 15 standing.

Once full-scale production begins it is expected that parts of the vehicle will be built as composite structures.

The cost of a typical system, 5km in length, and running six vehicles, is put at between £1.5m and £2m.

It is unlikely such schemes will replace cars and buses but, if priced competitively, they could play a big role in future transport policy.

The author writes for Professional Engineering magazine.

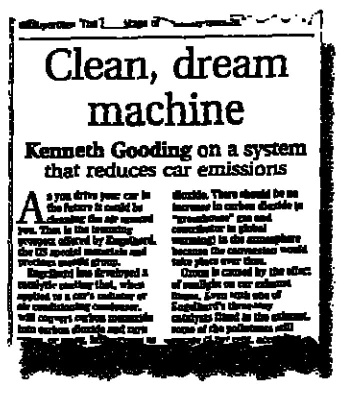
Second thoughts · Ken Gooding

PremAir stalls out of the fast lane

The Technology Page begins a series which follows up on the progress made by companies or products highlighted in past issues

THEN

As you drive your car in the future it could be cleaning the air around you. That was the tempting prospect offered by Engelhard, the US special materials and precious metals group, last April.



APRIL 11 1995

The company startled the automotive and platinum industries by announcing it had developed a catalytic coating of platinum metal that, when applied to a car's radiator or air conditioning unit, would convert carbon monoxide into carbon dioxide and turn ozone, a component of smog, into oxygen as air passed over the components.

Engelhard suggested that urban areas with severe smog problems, such as Los Angeles, would particularly benefit from the new technology, called PremAir. It might also help car makers to meet increasingly stringent anti-pollution regulations in the US – especially in California which is pushing towards "zero emissions" from cars – without making dramatic changes to their vehicles or having to include in their offerings electric vehicles, which at present are expensive and limited in range.

Ford, the world's second biggest vehicle producer, added credibility to the PremAir claims by publicly admitting its involvement with tests of the new system. Baren Gandhi, Ford's director of chemical engineering, said: "Initial studies by Engelhard indicate the system could result in air quality improvements equal to or greater than possible with electric vehicles – at much lower costs."

Orin Smith, Engelhard's chairman, said the system could be in use on production cars as soon as 1998 and PremAir would have a market equal to or exceeding that of present autocatalysts in the US.

All this sent the price of platinum up from $415 (£270) a troy ounce to $461.25 in April, its highest for 4½ years. Traders suggested that Engelhard had taken the precaution of buying substantial quantities of the metal in the spot market before making its announcement. Engelhard is 30 per cent owned by Minorco, the offshore subsidiary of the Anglo American Corporation of South Africa. Anglo also owns nearly 24 per cent of Rustenburg, the world's biggest platinum producer.

News of the PremAir breakthrough helped to send the Engelhard share price up by 50 per cent to $26 in a matter of days. In August it was nearly 90 per cent higher at $32. Eight or more Engelhard executives made about $4.8m by selling shares when the price was high.

NOW

First signs that not all was going to plan with the PremAir programme came in November when Engelhard announced it was cutting the potential cost of the system by taking out the platinum and using an unspecified base metal instead. This was expected to reduce the cost per car from between $1,000 and $2,000 to between $50 and $100.

At the same time Ford indicated that, although the technology worked well – removing 80 per cent of the ozone from the air that passed over a treated car radiator – it might not be as effective at fighting pollution as originally hoped. Computer modelling by Ford showed it would cut overall ozone levels in Los Angeles by only 0.04 parts per billion (ppb) whereas Engelhard had projected a reduction of 30 times that amount. (In 1987 ozone in Los Angeles reached 189ppb.)

Engelhard explained that it had based its predictions on a concept that included modified vehicles in which fans would draw much more polluted air over the catalyst. Ford used unmodified vehicles for its testing.

The nine-month test period with Ford came to an end in the middle of February and the vehicle group said it had decided not to use PremAir catalysts on its vehicles but would monitor Engelhard's progress.

Undaunted, Engelhard said it was in contact with other interested vehicle makers. It was also exploring other ways in which the PremAir concept could be used and was conducting work on applications in air conditioners and other stationary equipment.

Meanwhile, Engelhard's share price has subsided to $20⅝ and platinum's price is down to $412 an ounce.

More often than not, platinum's price follows gold's up and down. But this year it failed to follow when the gold price suddenly jumped.

Trevor Pitts, manager of marketing platinum group metals at Standard Bank, said last week this was because the US investment funds that bought platinum following Engelhard's announcement last year, speculating on a price rise, suffered big losses when the price fell sharply instead. Now they are very wary of the platinum market.

Launching Standard Bank's Platinum Yearbook in London, Pitts recalled that in November, at the very same time as Engelhard revealed that PremAir was not after all likely to revolutionise the platinum market, "that old chestnut about sales [of platinum] from the US government's strategic stockpile also returned to haunt the market".

Consequently, by the last trading day of 1995, platinum was at its lowest level for the year: $398.25.

BUSINESSES FOR SALE

ARTS

Drawn to Leonardo the great

This quintessential Renaissance man still has something for us all, writes William Packer

Among the great masters, Leonardo is one of that handful of whom everyone has heard. I remember my headmaster's absolute assertion that the three greatest artists who ever lived were Raphael, Michelangelo and Leonardo. Even now, the Queen's Gallery's press release for this show unblushingly declares that Leonardo "was probably the greatest draughtsman in the entire history of western art."

Of the cache of surviving drawings by Leonardo, the greater part – 600 – is preserved in the Royal Library at Windsor. Any exhibition that draws upon this trove is therefore inevitably of interest, as much for its surprises as for the chance to see again at first hand some of the more familiar images. Certainly this present selection by Martin Clayton and Jane Roberts, which registers the shifts of interest and activity against the backdrop of the artist's migratory life, contains many sheets that have seldom, if ever, been shown publicly before.

There is no doubt that Leonardo had his many moments as a remarkable draughtsman, but what he really was, if hyperbole is to be the order of the day, was one of the most interesting of draughtsmen, just as he was one of the most interesting and remarkable of men. Francis I of France, the patron of his last few years, thought his conversation quite simply the most fascinating he had ever known. And for us his visual conversation, as it were, still is. Leonardo the artist-scientist-engineer, the proto-typical polymathic Renaissance man, still has something for us all.

Great man, then, and great artist too? Yes, without question. It is only the easy superlative that we must watch. Here there is no drawing without interest, even if only because it is autograph and we sit at the artist's shoulder as he ruminates. But it has to be said that among this 100 are many scraps, jottings and conventional studies, interesting for what they tell us of the advance of an idea, perhaps, or what has last caught his eye, but nothing more than that.

Then again this is one of art's eternal puzzles – can a work of a genius not be itself a work of genius? The simple answer is yes, which artists themselves have known all along, for it happens in their experience all the time. What is so stimulating and ultimately uplifting about this extraordinary collection – the work-a-day things quite as much as those that take the breath away – is that it reasserts that old and simple truth.

And the effect of that reassertion is to bring us back not to the renaissance man, ideal and remote, but to the working, practical artist that, beneath it all, Leonardo always was. Of course he was nosy, curious, pulling up plants and cutting up corpses, always looking to see how things worked. And of course that is fascinating. And of course a scribbled note or aide-memoire, a marginal suggestion or diagram about it all, is no more than that. But even then, in the unselfconscious, un-arty, practical manner of its expression, we discover the touch of the true artist, for all true artists work in such a way. The mystery is that, so often, there is no mystery.

By contrast, there are those drawings in which we find Leonardo so enwrapt in his studies as to forget himself and the work, the touch, the concentration moved on to another plane. Two hands laid lightly across a woman's chest, a wrist emerging from a sleeve, or the rumpled folds at a crooked elbow, are resolved with a light and lively economy of means that is yet sure and complete in itself and an integral, monumental work of art. Off down the Arno he goes to survey schemes for a canal to link Florence to the sea, or cut Pisa off from it – and the maps he produces are not maps at all but the most free and open of water-colour drawings, almost abstract in their organic vitality.

The contrast, perhaps, is best demonstrated in the anatomical work, in which several sheets of closely-detailed, densely-annotated schematic studies and diagrams suddenly give way to an image of an ox's heart and lungs. The veins and sinews trail down for all the world like the tributaries and divergences of the Arno of his maps, and are realised with as much intuitive attack. These are truly great, wonderful things.

Leonardo da Vinci – 100 drawings from the Royal Collection: The Queen's Gallery, Buckingham Palace SW1, until January 12 1997.

Studies of a woman's hands by Leonardo da Vinci

Ballet/Clement Crisp

Albrecht's journey

Giselle, returned on Thursday to the Royal Ballet repertory, might be re-titled *Albrecht* on those nights on which Irek Mukhamedov appears. So powerful is his interpretation, so shot through with the storms and fevers of Romanticism, that the ballet's interest shifts from Giselle's tragedy to Albrecht's journey from unthinking youth to redeemed hero.

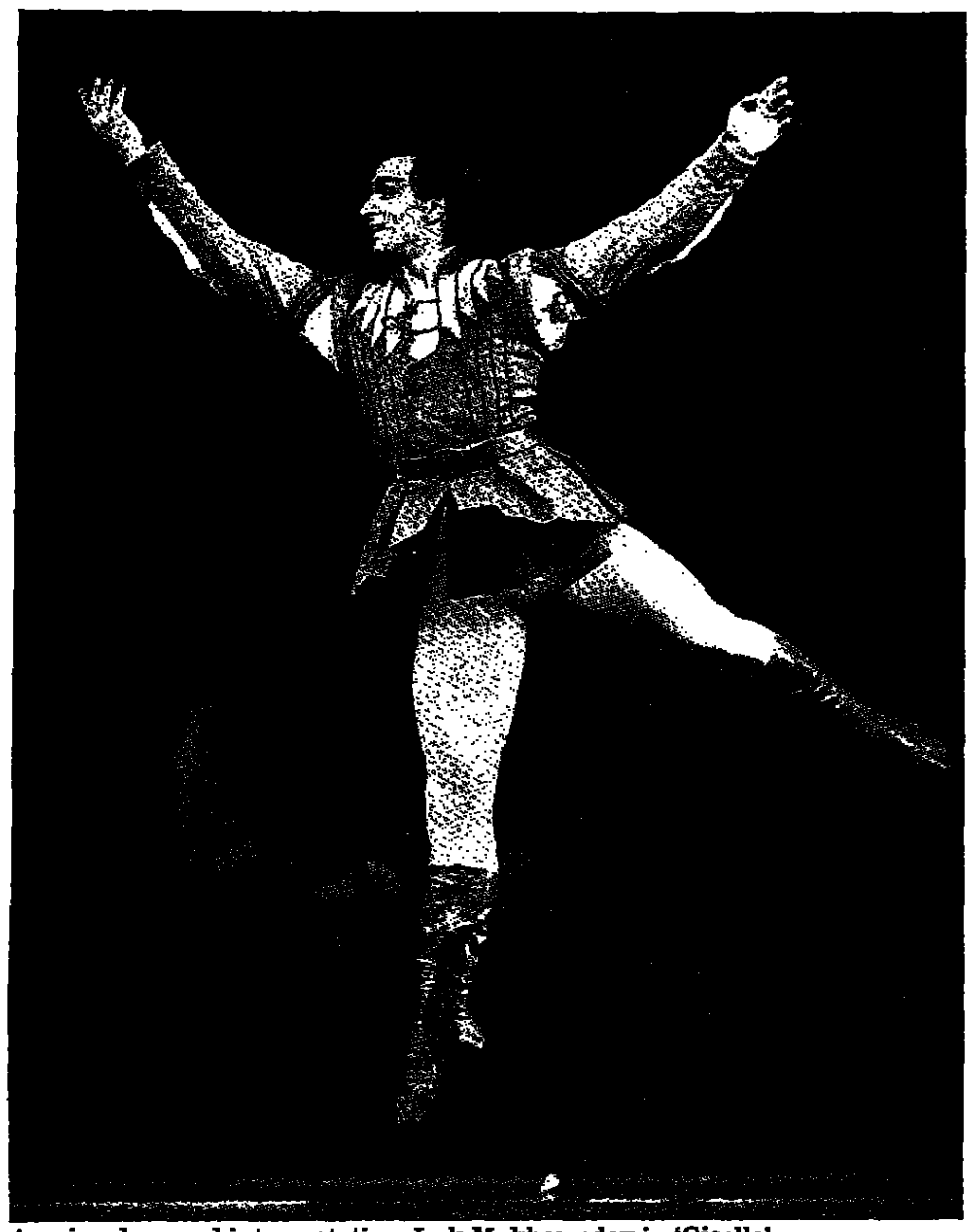
It has ever been the mark of Mukhamedov's genius to convey feeling with extraordinary clarity. At the Bolshoi, his repertory tended towards the archetypal heroics required of the Soviet danseur, though his Spartacus and Ivan the Terrible were compelling studies of character in crisis. It is the MacMillan repertory which he gained when he joined the Royal Ballet that has shown us the full extent of his dramatic gifts: tremendous scale in statement; subtlest effects in expression; absolute conviction in every least action. In *Giselle*, we see these qualities revivify an old and somewhat careworn text.

His Albrecht with the Bolshoi was ardent. In Peter Wright's scrupulous staging at Covent Garden – almost too detailed in such incidents as the Courland hunting party, some of whose members are plainly on day-release from Broadmoor – Mukhamedov has an ideal frame for his portrait.

This Albrecht is no princely cad. His passion for Giselle is real, but we sense the social distance that separates them: Mukhamedov amused by peasant legend; courtly attitudes glimpsed behind the simple manner. The characterisation is so "understood", so sensitive in detail, that we trace his emotions at every instance. The crisis when the hunt appears; his despair as Giselle's reason fails, are done with a High Romantic ardour. It is no small indication of Mukhamedov's talent that he marries an expressive naturalism with the proper conventions of performance-style for *Giselle*.

For the Albrecht of the second act – haunted; remorseful – every praise. Mukhamedov is here the Romantic hero imagined by Berlioz or Géricault. His final pose, one arm raised to hold the last flower Giselle has given him, is profoundly true, a central image of the ballet as we understand it. Ironically, in the original *Giselle* of 1841, Albrecht was led out of the forest and back to the real world by his fiancée at curtain fall. We know better now.

With Mukhamedov we see, in sum, a uniquely grand interpretation. My own memories of the great Albrechts of the past 50 years, back to Dolin and Lifar, cannot summon up a more commanding or more intensely expressed reading. There are some small problems with costuming: slightly heavier than heretofore, Mukhamedov needs jerkins less upholstered and block-like (and so do the male soloists in the first act sextet, who are outfitted with strait-jackets). This apart, the portrait is superb: dance-drama at its finest.



A uniquely grand interpretation: Irek Mukhamedov in 'Giselle' Alastair Muir

The Giselle was Viviana Durante, delicate in manner and means, and fired by real anguish in the mad-scene. It is a touching view of the character, and stated with unfailing finesse. The company performance was secure; the first act sextet featly done. The score sounded well (though I mistrust a certain sweetening of the orchestration) under Davor Krnjak, despite a couple of brisk moments in Act 1 which recalled Beecham's dictum about "keeping the buggers on the hop".

Giselle is in repertory at Covent Garden in March and April.

Opera/Richard Fairman

Back to front 'Ring'

Was it because it was a Tuesday night? Or has word about the production got around? The lower half of the Royal Opera House was sparsely filled, which will count as very bad news in the accountants' department when the opera is as expensive to put on as Wagner's *Götterdämmerung*.

Somehow three stray performances of this last part of the *Ring* cycle have turned up by themselves and are evidently proving difficult to market. The production of *Götterdämmerung* was big news when it was new last October, but the controversy of the autumn has cooled now. It is a strange experience coming new to the Royal Opera's *Ring* after most people have made up their mind about it, and even more so if one is starting at the end.

No matter how enthusiastic previous reports have been about the musical performance or how many awards Bernard Haitink has won for his contribution (including the recently-announced 1996 Laurence Olivier Award for outstanding achievement in opera), nothing quite prepares the newcomer for the overwhelming impact of what is going on in the pit. In 25 years of opera-going at Covent Garden I have never heard the orchestra play better.

The strings have real depth of tone; wind and brass attain a high standard of balance and intonation, right down to the final chord. Other conductors may have elicited more succulent textures, but Haitink's Wagner goes beyond simply creating glorious orchestral sounds. The whole of this *Götterdämmerung* spoke volumes about getting to the heart of the music and making every phrase tell. It was grand, passionate, exciting Wagner conducting of a kind to treasure.

It would be tempting to say that Haitink was the lone inspiration of the evening, but the Royal Opera has assembled a decent cast of internationally-recognised Wagnerians for these three performances. Anne Evans, a leading Brünnhilde at so many other opera-houses of the world, here appeared as the *Götterdämmerung* Brünnhilde for the first time at home. Lower down the voice is warm and expressive, but as it rises, the upper half loses weight and projection.

The big moments, in particular the last few minutes of the Immolation Scene, are seriously underpowered, but she has touched the heart enough elsewhere to win forgiveness. Her Siegfried is Wolfgang Fassler, who has a sturdy tenor that sounds as if it would never let him down (although it did, rather dramatically, once). He is good at putting across the uncouth young Siegfried that the production wants, but it is a shame the singing comes to match, without much cultivation.

Vivian Tierney's Gutrune and Donald Maxwell's Gunther are well in the picture. Judith Howarth shines as the first Rhinemaiden and Jane Henschel made sure Waltraute's narration made an impact. But the outstanding individual performance was Kurt Rydl, who sang Hagen with a vocal power and personal magnetism that never flinched.

And the production? From this *Götterdämmerung* alone, which ends with two long acts spent facing a pile of cardboard boxes, it is hard to see how there could be enough ideas to start a controversy. If the final part of the *Ring* adds up to so little, can the earlier operas in the equation have contained anything of substance? For the definitive answer we shall have to wait to the autumn, when the Royal Opera will be presenting three complete cycles of this *Ring*. If Haitink is there, I shall be too.

Concert/Adrian Jack

Davis's Bruckner

Bruckner symphonies are made for reverberant spaces. As each section, not just the end of a movement, comes to a halt, you expect its final chord to hang in the air as you reel under the impact, and Bruckner left pauses to allow that to happen. Yet on Thursday night, in the London Symphony Orchestra's Bruckner Mozart series, the audience at the Barbican started clapping before Sir Colin Davis had even counted out the Seventh Symphony's final bar.

True, as Bruckner's closing movements go, this one is distinctly breezy. It seemed still breezier under Davis's flexible direction and even shorter in relation to one of Bruckner's longest slow movements, lasting 25 minutes in this performance, which he elected to play after the Scherzo instead of in its usual place as second movement. It was an interesting experiment, but the order printed in the score seems better, because it makes the symphony lighten progressively after two monumental movements.

The Seventh contends with the Fourth as Bruckner's most popular symphony. If the Adagio is the last word as a sustained and soulful elegy, the first movement surpasses it for the mountainous grandeur of its melodies. This performance did not hammer points home with massive pull-ups and exaggerated adjustments of tempo: the shaping was a subtle and not always quite literal reading of the score. Davis was at his most supple in the Trio section of the Scherzo, taking Bruckner's "songlike" marking as a cue to relax, though without any wallowing. The orchestra played like a dream.

Before the interval, Yuri Bashmet and Dmitri Vassiliev were the viola and violin soloists in Mozart's *Sinfonia Concertante*. Vassiliev is the leader of the Moscow Soloists, whom Bashmet directs, and it was Bashmet who really seemed to take the initiative here, obviously enjoying himself, and not just excelling in the most gorgeous tone quality, but irresistibly expressive in his manner of wooing.

Visual diversity in the north-east

From a new £595,000 David Mach sculpture made of 350,000 bricks to the first visit of the 7th-century Lindisfarne Gospels north of the Tyne for 1,000 years, Visual Arts UK is striving for wide public appeal.

The nine month event, launched last night in Newcastle upon Tyne, embraces the mainstream (Velasquez' Rokeby Venus and 17th-century Spanish painters) the contemporary (exhibitions of recent purchases by the Tate and other national bodies) and the bizarre (an ocean-going buoy made out of metal salvaged from Soviet submarines).

The festival is part of Arts 2000, the Arts Council's project to celebrate particular art forms in a different part of the UK each year between 1992 and the year 2000.

The regional build-up began two years ago with a controversy over the Gateshead Angel, a 65-foot-high steel figure which Turner-prize winning artist Antony Gormley is to create for a hilltop site beside the A1 motorway.

This row highlighted one of the event's major objectives; to change the perceptions of the local populace about the visual arts and their role in daily life. The celebration's other aim is to change the national perception of the scale, quality and diversity of visual arts activity within north-east England and Cumbria.

These are bold ambitions, but Visual Arts UK's organisers say the celebrations have triggered not only a £10m programme of events in 1996 but also a £60m building programme of new galleries and exhibition space throughout the region.

Chris Tighe

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

DANCE
Het Muziektheater
Tel: 31-20-5518117
● L'Art du Pas de Deux: a choreography by Béjart, performed by the Béjart Ballet Lausanne; ?.15pm; Mar 8, 10 (2pm), 11

■ ANTWERP

THEATRE
[illegible]schouwburg
Tel: 32-3-2319750
● The Cherry Orchard: by Chekhov (in Dutch). Directed by Karst [illegible]oudstra; The cast includes Kristin [illegible]ras, Ronnie Commissaris, [illegible]neleen Cooreman and Herbert [illegible]ck; 8pm, Mar 8; also 1.30pm; to Mar 9

■ ATHENS

OPERA
[illegible] Concert Hall
Tel: 30-1-7282333
● Don Giovanni: by Mozart. Conducted by Gustav Kuhn and performed by La Camerata and the Orchestra of the Friends of Music; 8.30pm; Mar 5, 6, 7, 8

■ BERLIN

CONCERT
Konzerthaus
Tel: 49-30-203092100/01
● Requiem: by Verdi. Performed by the Chor der St Hedwigs-Kathedrale Berlin with conductor Alois Koch; 8pm; Mar 8

OPERA
Deutsche Oper Berlin
Tel: 49-30-3438401
● Madama Butterfly: by Puccini. Conducted by Johan M. Arnell and performed by the Deutsche Oper Berlin; 7.30pm; Mar 8
Komische Oper
Tel: 49-30-202600
● Die Entführung aus dem Serail: by Mozart. Conducted by Yakov Kreizberg and performed by the Komische Oper; 7pm; Mar 8

■ BONN

OPERA
Oper der Stadt Bonn
Tel: 49-228-7281
● Fidelio: by Beethoven. Conducted by Steven Sloane and performed by the Oper der Stadt Bonn; 8pm; Mar 8

■ FRANKFURT AM MAIN

CONCERT
Jahrhunderthalle Hoechst
Tel: 49-69-3601240
● Württembergisches Kammerorchester Heilbronn: with conductor Jörg Faerber; trumpet concertos by Torelli, Barsanti, Tartini, Molter, Vivaldi, Boyce and Stölzel; 8pm; Mar 8

■ GLASGOW

CONCERT
Glasgow Royal Concert Hall
Tel: 44-141-3326633
● The Royal Scottish National Orchestra: with conductor Paul Daniel perform works by Sibelius, MacMillan and Nielsen; 7.30pm; Mar 9

■ GOTHENBURG

DANCE
Göteborgs Operan
Tel: 46-31-108000
● Eva: a choreography by Robert North to music by Howard Blake, performed by the Gothenburg Ballet. Soloists include Tim Liljequist, Ersin Aycan and Darren Parish; 7.30pm; Mar 8

■ HAMBURG

OPERA
Hamburgische Staatsoper
Tel: 49-40-351721
● Der Wildschütz: by Lortzing. Conducted by Gregor Bühl and performed by the Hamburg Oper. Soloists include Klaus Häger, Renate Spingler, Peter Galliard and Gabriele Rossmanith; 7.30pm; Mar 8, 12

■ HOUSTON

MUSICAL
Theatre Under the Stars
Tel: 1-713-622-1626
● The Music Man: by Meredith Willson. Directed by Stephen Terrell. The cast includes John Schneider, Lee Merrill, Robert Preston and Diane Tobola; Tue - Sat 8pm, Sun 7.30pm, Sat, Sun also 2pm; from Mar 8 to Mar 24 (not Mon)

■ LAUSANNE

CONCERT
Théâtre de Beaulieu
Tel: 41-21-6432211
● Orchestre de la Suisse Romande perform works by Mozart and R. Strauss; 8.30pm; Mar 7

■ LEIPZIG

DANCE
Oper Leipzig Tel: 49-341-1261261
● Leipziger Ballett: accompanied by the Gewandhausorchester perform three choreographies by Uwe Scholz to music by Stravinsky; 7.30pm; Mar 8

■ LISBON

CONCERT
Grande Auditório da Fundação Gulbenkian Tel: 351-1-7935131
● Gidon Kremer, Mischa Maisky and Konstantin Livschitz: the violinist, cellist and pianist perform works by Shostakovich, Franck and Debussy; 7.30pm; Mar 9

■ LONDON

CONCERT
Barbican Hall Tel: 44-171-6388891
● Matthäus Passion: by J.S. Bach. Conducted by Brian Wright and performed by the Wren Baroque Orchestra and the Goldsmith's Choral Union; 7pm; Mar 8
Wigmore Hall Tel: 44-171-9352141
● Angela Hewitt: the pianist performs J.S. Bach's French Suite in G, 15 Sinfonias, Partita in D, and Prelude and Fugue in A minor; 7.30pm; Mar 6

■ LOS ANGELES

OPERA
Dorothy Chandler Pavilion
Tel: 1-213-972-8001
● Così fan tutte: by Mozart. Conducted by Ingo Metzmacher and performed by the Los Angeles Opera. Soloists include Hillevi Martinpelto, Frederica von Stade and Michael Schade; 7.30pm; Mar 7, 9

■ NEW YORK

OPERA
Metropolitan Opera House
Tel: 1-212-362-6000
● Salome: by R. Strauss. Conducted by Donald Runnicles and performed by the Metropolitan Opera. Soloists include Catherine Malfitano, Hanna Schwarz, Kenneth Riegel and Bernd Weikl; 8.30pm; Mar 7, 11

■ PARIS

OPERA
Théâtre du Châtelet
Tel: 33-1 42 33 00 00
● Don Carlos: by Verdi. Conducted by Antonio Pappano and performed by the Opéra de Châtelet. Soloists include Roberto Alagna, Karita Mattila, Thomas Hampson and José van Dam; 6.30pm; Mar 7, 10 (3pm)

■ STUTTGART

OPERA
Staatstheater Stuttgart
Tel: 49-711-20320
● Rigoletto: by Verdi. Conducted by Willem Marcel Wentzel and performed by the Oper Stuttgart; 7.30pm; Mar 6

■ SYDNEY

OPERA
Drama Theatre, Opera Theatre, Playhouse Tel: 61-2-250-7127
● Fidelio: by Beethoven. Conducted by Richard Hickox and performed by the Australian Opera. Soloists include Wendy Dixon, Kathryn McCusker, Horst Hoffman, Michael Terry and Robert Allman; 7.30pm; Mar 6

■ VIENNA

CONCERT
Konzerthaus Tel: 43-1-7121211
● Wiener Bell'Arte Ensemble: perform works by Beethoven, Josef Strauss and Johann Strauss; 0.30pm; Mar 6

OPERA
Wiener Staatsoper
Tel: 43-1-514442960
● Das Rheingold: by Wagner. Conducted by Peter Schneider and performed by the Wiener Staatsoper. Soloists include Uta Priew, Adrianne Pieczonka, Monte Pederson and Heinz Zednik; 7pm; Mar 8

■ WASHINGTON

OPERA
Opera House Tel: 1-202-416-4600
● Mefistofele: by Boito. Conducted by John DeMain and performed by the Washington Opera; Soloists include bass Samuel Ramey, tenors William Joyner and Gary Pate, soprano Nelly Miricioiu and mezzo-soprano Marianne Cornetti; 8pm; Mar 8, 11 (7pm)

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FT Business Morning

10.00
European Money Wheel
Nonstop live coverage until 14.00 of European business and the financial markets

17.30
Financial Times Business Tonight

Midnight
Financial Times Business Tonight

The London Stock Exchange's very purpose is in question, says **George Graham**

Blood on the road to the promised land

"You're walking through the City of London and suddenly a bloodstained body drops from a window. People want to inquire what's going on within," says Ms Diane Abbott. The Labour MP is a member of the Commons Treasury committee which is investigating the events surrounding the dismissal of Mr Michael Lawrence as chief executive of the London Stock Exchange.

At any other time, the exchange's debate over the introduction of an electronic order-matching system might have seemed like an abstruse discussion of costs, liquidity and technology. But the sudden sacking in January of Mr Lawrence has shed a more lurid light on these dry issues.

The row that ensued has revealed far-reaching questions over the way the exchange is governed, and whether it can reconcile its sometimes conflicting roles. These include representing its stockbroker members, running a trading system and regulating the broader securities market on behalf of the City.

"The London Stock Exchange's role is becoming increasingly untenable and may give rise to major obstacles to development of the UK securities industry," says Mr David Jones, chief executive of ShareLink, the retail share-dealing service owned by US broker Charles Schwab.

Evidence given to the Commons committee has painted the London stock market as a cartoon landscape, peopled by ogreish marketmakers such as BZW and Merrill Lynch, ruthlessly fighting to preserve their privileges. Meanwhile, Mr Lawrence portrays himself as battling heroically to lead the exchange into a promised land of efficiency and transparency, determined to introduce a new system for trading in shares that would hugely reduce dealing costs.

"The difficulty for us . . . is that we have to strip out any element of personality and see if there are any structural problems here," says Sir Thomas Arnold, chairman of the Commons committee.

The exchange has already lost its monopoly on UK equities trading – even if Tradepoint, its rival, still handles only a tiny volume. During the next 12 months, it will lose control of the actual exchange of share certificates and cash when the Crest electronic settlement system, developed by the Bank of England and owned by a consortium, takes over this function.

Brokers and investors who agree on little else are almost unanimous that the exchange's costs and staffing levels are too high. When Crest is introduced, it will lose settlement fees it now earns from its own Talisman system, which last year were £56.5m, 32 per cent of 1995 budget.

The exchange has already reduced its staff by 144 over the past two years, and cut £35m from its annual budget, bringing it to £177m last year. But it still employs more than 1,000 people, and owns a vast and half-empty tower overshadowing the Bank of England together with a collection of other buildings in the City which it owns or occupies on long leases.

"The issue is not trading methods. The issue is an exchange which costs this much," says the head of a large broker.

Mr Jones of ShareLink makes the same point in more cautious form: "It is questionable whether it is financially prudent to build or develop new systems within the current cost structure of the London Stock Exchange," he said in a paper submitted to the exchange and to the Commons committee.

The existing trading system is "quote-driven" – marketmakers quote the prices at which they are willing to buy or sell shares on a stock exchange screen, while deals are actually struck over the telephone. This method represented a development of the old jobbing system that prevailed before the Big Bang of 1986, when the stock exchange's rules and structure were radically changed and trading moved off the exchange floor and into bank dealing rooms.

In most of the rest of the world's stock markets, share trading is order-driven. Customers submit firm orders to a central computer which matches buyers and sellers automatically and executes the deals.

One reason for making a switch to an order-driven system would be to cut the cost of buying and selling shares. This is substantially larger in London than in other large markets – because marketmakers must hold shares to meet client demand.

However, big UK institutions are unconvinced of the cost advantage of order-driven trading since they can almost always deal at prices better than those quoted on screen by a marketmaker. They are more concerned that moving away from a quote-driven system would reduce the ability of the London market to absorb large blocks of shares – particularly when prices are plummeting.

"It's irrelevant if you have the narrowest spread and the lowest dealing costs if you can't deal in size," says Mr David Rough, who heads the investment management operations of Legal & General, the insurance company.

For the very largest and most heavily traded shares, the method makes little difference: there is always likely to be enough liquidity to allow large amounts of shares to be traded, whether by quote or order.

The real problem is in dealing with smaller and less heavily traded shares. The London system insists on marketmakers offering continuous prices on these.

These smaller shares may not be a big concern for overseas institutions which concentrate on the top 20 or 30 shares. But they are of critical importance to a UK fund manager with holdings in 200 or 300 companies. "What we desperately need is an efficient market, and to some extent we don't care what it looks like," says Mr Rough.

For the banks and brokers with a big share of today's market, however, radical change could threaten the investments they have made and their commercial position.

"If I was a BZW or a Merrill, I would want to protect my position as much as I could. That's perfectly reasonable," says Mr Lawrence, who, nevertheless, blames these two marketmaking businesses for instigating the "coup" that ousted him.

He goes on to say that his dismissal raises questions about how the exchange is run, and how the conflicting interests can be reconciled. The exchange board has broadened in recent years and now includes some directors from investment managers and listed companies, but it is still seen as dominated by the representatives of the big marketmakers. The marketmakers deny that they dominate the board, but think they would be wholly justified if they did.

"The commitment level of the members differs widely; thus one-member, one-vote does not in this case reflect the reality of the market structure," says Mr David Wenman, head of global equity trading at SBC Warburg, the London investment bank and marketmaker now controlled by Swiss Bank Corporation.

Marketmakers complain that the exchange has moved away from the old "club" model and become too much of a commercial organisation.

"In the past it may have been run like a club, but it certainly isn't now. They don't take any interest in what members think, which I think clubs do," says Sir Nicholas Redmayne, chief executive of Kleinwort Benson, the investment bank owned by Germany's Dresdner Bank.

"We were moving away from a club," retorts Mr Lawrence. "What was upsetting them was the fact that the management of the exchange was running the thing in a professional way."

Mr John Kemp-Welch, the exchange's chairman, has now announced a review of its corporate governance. But with its trading monopoly now breached, its settlement functions about to disappear and its cost structure under attack from its members, the question is not how the London Stock Exchange should be run: it is its very purpose that is now in question.

Marketing · **Motoko Rich**

When a successful ingredient sticks

ICI is hoping to join the club of brands centred on components rather than products

Shoppers are familiar with trademarks such as Coke, Le Creuset and International Business Machines. But a growing number of companies believe consumers have become brand-conscious about more than their soft drinks, cookware or personal computers. Nutrasweet, Teflon and Intel are among household names which promote ingredients or parts of other products, rather than end-products.

Now Imperial Chemical Industries, the UK's largest chemicals company, is trying to join the club of recognised ingredient brands.

Its acrylics division, which manufactures the sheet used in making baths, spas and other sanitaryware, is directing a campaign at home-owners. This year, the business will spend $4m on advertising and marketing in an attempt to make its acrylic products – Lucite in the US and Perspex in Europe – as familiar to consumers as to manufacturers.

"We want to be the Intel of acrylic," says Mr Simon Ellis of ICI's sanitaryware division.

By courting the consumer, the division believes it can offer the manufacturer which uses its material a competitive edge, as well as boosting its sales. It is also distinguishing itself from most of ICI's other chemical businesses. "A lot of heavy chemicals may be advertised, but only to their own customer manufacturers," says Mr Bob Hotchkiss of ICI's US acrylics division.

About 70 per cent of European baths are made from acrylic. In the US, where acrylic commands only 18 per cent of the market, it competes with steel, enamel and gel-coated polyester. ICI believes it can increase its sales by encouraging its customers' customers to opt for acrylic over other bath materials, as well as encouraging them to plump for the ICI product.

One challenge for ICI, which swapped its fibres division for the acrylics business of DuPont, the US chemical company, in 1993, is the lack of familiarity with its name in the US where most DuPont operations were located.

The group is using labels and advertisements bearing both the Lucite and ICI names. Its leading magazine advertisement features a toddler mischievously peering out of a bath he has covered with crayon drawings, and invites readers to call a free number to order a sample chip of the Lucite brand acrylic.

The technique is similar to a marketing ploy by Nutrasweet, the sweetener made by Monsanto, the US chemical company, in the early 1980s. When the sweetener was introduced, the company sent gum balls flavoured with Nutrasweet to consumers to try to persuade them that a product flavoured with the artificial sweetener could taste good. ICI uses its chip samples not only to demonstrate the product's qualities but to develop a mailing list of potential consumers. When a caller requests a test kit, the group sends the inquirer's address to its own customers – bath manufacturers which can make their own contact with bath buyers.

Such co-operation with customers is the hallmark of a successful ingredient brand. Nutrasweet and Teflon offer customers technical support in developing the end products which are the ultimate showcases for their ingredients. "We do not just drop our product on our customer's back door," says Mr Jim Mitchell, director of marketing at Nutrasweet. "It is to our advantage, from a financial standpoint, to ensure our customers' products are successful."

If the final product founders on the shop floor, however, the negative ramifications are out of the ingredient brander's control. "You forfeit control to somebody else," says Mr Andrew Seth, of Added Value, the brand consultancy. "Somebody else has control of the final product and the ultimate level of satisfaction that is being assessed."

In an attempt to maintain end-product control, Teflon, the anti-stick coating made by DuPont, has long vetted its customers in the kitchenware and fabric markets before selling its product to them.

ICI has not linked the use of its trademark with quality thresholds. "We are not in any way saying that, by the use of this mark, ICI has reviewed the manufacturing process for the spa or the tub," says Mr Hotchkiss.

Regardless of whether the ingredient-maker monitors its customers' manufacturing standards, enthusiasts say a successful ingredient can eventually be equated with quality in consumers' minds. "To the consumer, Nutrasweet is not aspartame [the chemical name for the sweetener]. Other people sell aspartame – we are the only people who sell Nutrasweet," says Mr Mitchell. "Our product is a combination of an ingredient and a customer image, which gives us an advantage in the marketplace."

This advantage, says Mitchell, means Nutrasweet's customers want to buy the product in order to win favour with their customers.

For ICI in Europe an advantage cannot be built from scratch. "We cannot become the Intel of baths in the highly developed market of Europe," says Mr Ellis.

The group is developing a recyclable acrylic which could be signposted on labels provided with the end products. "Our customers need evidence that using the raw-material brand really adds value to their brand," says Mr Ellis.

·LETTERS TO THE EDITOR·

Number One Southwark Bridge, London SE1 9HL

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Effectiveness of UK bilateral aid accepted

From Mr Angus Hone.

Sir, As a 50-something development economist basking in the joys of early severance caused by the downsizing of the Natural Resources Institute, Chatham (an Overseas Development Administration agency), it might be expected that I would endorse Mrs Glenys Kinnock's views (Letters, February 22) on aid. I most emphatically to not.

The personal commitment of Baroness Chalker, the UK's overseas development minister, to the overseas aid budget and the effective management of the bilateral reserve is not in doubt. The pound sterling's decline in value against the US dollar and the Ecu increases the cost of the UK's multilateral commitment to World Bank, United Nations and the European development agencies. The remaining amounts left to the bilateral aid budget are best concentrated in Asia and sub-Saharan Africa where the greatest concentrations of poor people live.

Baroness Chalker has also pioneered very successful joint programme between the ODA and the non-governmental organisations and aid charities. The effectiveness of UK bilateral aid is generally accepted.

Finally, Mrs Kinnock should remember that it was not Baroness Chalker, but Douglas Hurd, when foreign secretary, who insisted that the ODA permanent secretary (Sir Timothy Lankester) sign the Pergau Dam's financial funding.

It is hoped that the real cuts for 1996-97 and 1997-98 will be restored as quickly as possible, but Mrs Kinnock should not shoot our pianist.

Angus Hone,
52 Ridgmount Gardens,
London WC1, UK

Bypass not the answer

From Mr A. Russell Smith.

Sir, Barry Riley has it wrong (Weekend Money: "Vote now, we'll bill you later", March 2/3).

People are not anti-growth per se; they are anti-growth when the environmental cost is too great. His comments about "a modest road bypass around the Berkshire town of Newbury" are well off the mark. This road would cross and damage three sites of special scientific interest, nature reserves, a registered battlefield, an area of outstanding natural beauty and 12 sites of archaeological importance.

Almost 70 per cent of the daily 50,000 vehicles in Newbury town are local and, under traffic forecasts, a bypass would provide relief on the existing A34 in Newbury for just five to seven years. Alternative (and cheaper) solutions exist and should be applied but the Highways Agency appears to have a closed mind.

As the owner of a haulage company which regularly uses the A34 en route to the continent, I have a vested interest in measures to minimise congestion. The proposed bypass, however, is not the answer; it will not solve Newbury's traffic problem and the environmental cost is, in any case, too high.

A. Russell Smith,
chairman,
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Time for Asean arms control co-operation

From Mr Oliver Sprague.

Sir, Instability in south-east Asia is not the only possible consequence of the rapid build-up of conventional arms in the region ("Fear of Beijing fuels Asean arms spending", February 28). Technology transfers and joint production agreements are an increasingly integral part of arms deals with countries in the region. This has aided the development of indigenous defence production and increases the likelihood that arms containing western technologies will be exported to destinations proscribed by western countries. Witness, for example, negotiations between Indonesia and Iran to supply Iran with helicopters incorporating French components.

There is a timely opportunity in the wake of the EU-Asia summit to explore how best to encourage Asean states to co-operate fully with evolving international control initiatives, such as the soon-to-be established Wassenaar Arrangement and the development of the UN Register of conventional arms. Such efforts will be essential if the risks of unregulated proliferation in the near future are to be alleviated.

In the meantime, and in light of the promised review of arms export controls following publication of the Scott report, the UK, alongside its European partners, must establish clearer rules governing the export of arms and technology transfers to south-east Asia which will prevent the introduction of new and destabilising military technologies into the region.

Oliver Sprague,
researcher,
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UK

Elements of pension costs

From Mr Adrian Jack.

Sir, Samuel Brittan ("Dilemmas in pension reform", February 26) errs when he says that all pensions (even funded ones) have to be paid from present national income.

One could imagine someone who throughout his working life bought tins of baked beans, which on retirement he started to consume. Such a person would not be reliant on income earned by the next generation of workers.

If a pensioner has a funded pension, the income he draws consists of two elements: the income of the fund and the withdrawal of capital. This latter element corresponds to the pensioner eating his tins of beans.

What will actually occur is that the cost of capital will vary between generations. Just as if the baked-bean pension became a mass phenomenon, the price of baked beans would be likely to rise, so too investing in capital (for example, equities) becomes more expensive as more workers buy funded pensions for their old age.

Once the savers start to draw on their pensions, the price of baked beans is likely to fall as pensioners (possibly wanting to vary their diet) try to swap their tins for something else.

Equally the value of equities, land and other forms of capital will drop when fundholding pensioners start to cash in their investments.

Adrian Jack,
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Temple,
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UK

Quotas met

From Mr Jean-Michel Baer.

Sir, Your brief article "France's TF1 misses EU quotas" (February 21) is misleading. TF1 did not in fact fail to meet the EU quotas of European works but did, according to the French CSA, fail to meet the more stringent European works quotas laid down in French law.

The Commission's monitoring of the "television without frontiers" directive shows TF1 met the "majority proportion of European works" as defined in the directive and in fact exceeded comfortably this proportion in the 1991 to 1994 period.

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Unity against the bombers

Israel and the Middle East peace process are in crisis as a result of Sunday's suicide bombing of a Jerusalem commuter bus by Hamas, the Palestinian Islamist group, and yesterday's horrific blast at a Tel Aviv shopping mall.

An identical bus attack a week earlier eliminated the 16-point lead Mr Shimon Peres, prime minister of Israel's Labour-led coalition, held over Mr Benjamin Netanyahu, leader of the right-wing Likud opposition, ahead of general elections on May 29. But the carnage of the past two days has left Mr Peres fighting for his political life. The security-obsessed Israelis, who have suffered nearly 300 deaths from terror attacks since the 1993 Oslo accords with the Palestinians, may decide in May's elections that the peace deals he has struck make them unacceptably vulnerable.

The government must do everything in its power to prove this conclusion false. The trouble is that the Israeli opposition has little incentive to help.

Mr Netanyahu is against the 1993 deal, which is already extending Palestinian self-government from Gaza and Jericho into the main cities of the Israeli-occupied West Bank. He says he will not treat with Mr Yassir Arafat, the PLO leader elected in January as president of the Palestinian authority, and will return the territories to Israeli army control.

Mr Peres's answer has been to declare all-out war on Hamas, and to demand Mr Arafat capture and hand over those behind the attacks. His government, and Mr Arafat's authority, are carrying out mass arrests, while Israel plans collective punishments like the demolition of the bombers' family homes, as well as a network of fences and checkpoints to "separate" Arab and Jew.

Given the pressure Mr Peres is under, these measures are understandable. But there is little to suggest they will deter men determined to die in order to wreck the autonomy accords, while Likud's prescriptions would only lead back to a more generalised conflict with the Palestinians. There are no quick fixes.

Mr Peres's more difficult job is to convince Israelis their future security depends on making peace with the Palestinians work, while acting vigorously against all those who oppose it by force – a political as well as security task, in which Mr Arafat must share.

This means sticking to the Oslo framework, including the release of Palestinian prisoners which was supposed to have taken place in May 1994 under the first stage of the accord. Mr Arafat should continue his negotiations with the majority in the Hamas movement willing to operate within the Oslo accord, and open up his crony-staffed administration to his opponents, Islamist or secular.

Such measures would garner the legitimacy for both Israel and the Palestinian authority to strengthen intelligence coordination, and crack down pitilessly on the hold-outs – a strategy that would deserve bipartisan support.

Muddied waters

Voters are an unpredictable bunch, and they seldom deliver tidy results when they are wanted. Thus it was in Spain on Sunday.

The Spanish electorate has not given Mr José María Aznar, leader of the conservative Popular party, the "sufficient" majority he needed to govern the country alone, as the markets expected. Instead, it has muddied the political waters. The Spanish parliament will be more evenly divided than it was before the poll. The minority Catalan and Basque regional parties, and tiny groups from the Canary islands and Galicia, are left holding the balance of power between right and left.

The result is a disappointment for Mr Aznar, who must now negotiate a deal with Mr Jordi Pujol, the Catalan leader, in particular. He will have to rebuild a lot of bridges to do so, for he fought hard during his campaign against any extension of regional autonomy. Indeed, that was part of his undoing: the PP flopped badly in the pro-autonomy regions.

Uncertainty about the concessions Mr Aznar may have to make, and what they may cost the already overburdened budget, is likely to leave the markets unsettled. A government based on fragile consensus is much less likely to be able to take the tough spending decisions required to bring the budget deficit under control. That makes Mr Aznar's commitment to try to meet the Maastricht convergence criteria for European economic and monetary union even less likely to succeed.

On the other hand, Convergència i Unió, the Catalan party, shares much of the PP economic philosophy: it is pro-business, serious about cutting the deficit, tackling the extravagant pension system, and reforming inefficient state enterprises. Indeed, it may be even more serious than the PP, which was notably silent on serious budget-cutting plans during the election campaign. If they do form a coalition, they will at least be pulling in the same economic direction.

If the outcome is messy, it may well be what the Spanish electorate wanted. A coalition government does not readily permit the arrogant exercise of power – a principal accusation against the Socialist government of Mr Felipe González. The Spanish people undoubtedly want cleaner and more transparent government. They have also spurned the extremes. They will be looking for a centrist policy from Mr Aznar – as he has promised.

As for Mr González, he emerges with surprising credit despite coming second. He managed to turn a predicted rout into a very narrow defeat. He will remain a powerful force in Spanish politics, as opposition leader. But his passionate personal commitment to European integration will be missing. Mr Aznar may also be committed to the EU, but as yet he is a much less imposing figure.

Major's gesture

Mr John Major's promise of visa-free access to the UK for virtually everybody in Hong Kong is unequivocally to be welcomed. Given the political realities at home, including the government's tiny parliamentary majority and opposition to the move within the cabinet, it took some courage to make such an undertaking.

Nevertheless, his pledge was the minimum gesture needed to maintain confidence among Hong Kong residents, and credibility in the eyes of Beijing. To have done anything less would have made a mockery of Britain's claim that it will maintain an interest in the welfare of Hong Kong's people after the handover to China. Unless Britain itself had accepted fully the travel documents of the Special Administrative Region of China, which Hong Kong will become in July 1997, it could hardly have expected other countries to do likewise.

Moreover, this gesture alone will not put to rest Hong Kong's fear that it will eventually be left to its fate. Visa regimes are easily changed, and London is reserving the right to impose a visa requirement if it sees evidence of back-door immigration.

To improve confidence further, London should now make clear that its concession on visas is irrevocable. Britain also needs to step up its international campaign for generous treatment of Hong Kong residents after June 30 1997.

One argument is pragmatic: any country which looks askance at the SAR travel documents is likely to find that China places similar restrictions on its own nationals. More fundamentally, all industrial countries have an interest in maintaining, as far as possible, the free exchange of persons and services which has underpinned Hong Kong's economic boom.

This argument has a broader application. Britain has no hope of influencing events in Hong Kong after 1997 unless it is backed up by a much larger international community – including the United States, the European Union and Japan – which wants to see the territory's prosperity and way of life preserved.

Mr Major has stated boldly that if China acts on its pledge to abolish Hong Kong's Legislative Council, that will be a breach of the Sino-British agreement on the territory's future. Apart from appealing to an international court which China does not recognise, there are not many sanctions at Britain's disposal to back these words up.

But by underlining its own commitment to the Hong Kong people, the government has taken a step in the right direction. The next step is to persuade as many other countries as possible to share that commitment – and to unite in reminding China's leaders that Hong Kong's prosperity is central to their interests, and that it will not continue if the territory does not remain free.

The FT Interview • Jack Smith

The house that Jack built

The chairman of General Motors tells Haig Simonian about his mission to refocus the group on its core motor business while introducing manufacturing methods which directly gear production to demand

The dials above the 34 Art Deco elevators which line the lobby at General Motors, the world's largest car company, no longer whirr to the constant rhythm of thousands of salarymen going to work each day.

Three years ago, Mr Jack Smith became chief executive, with a mission to refocus the giant company – which has interests from electronics to satellite television – on the core motor business. He started with the 13,000 employees of the 14-storey Detroit head office, whittling them down to 1,000 specialists, such as lawyers and tax accountants.

Operating responsibilities that were previously centralised in Detroit have been devolved to GM's operating divisions which have been given their own balance sheets and budgets.

"We're not confusing who's responsible for a business or second-guessing any more," says Mr Smith, 58, in a typically staccato explanation.

The pruning is not over. Between now and July, GM will spin off Electronic Data Systems, the hugely successful systems integration company acquired from Mr Ross Perot, its founder, in 1986.

The acquisition of EDS – and Hughes Electronics, the defence group – was part of an expensive diversification masterminded by Mr Roger Smith, GM's chairman during most of the 1980s. The aim was to reduce the group's dependence on the highly cyclical US car market and exploit potential synergies with other industries.

But the acquisitions took the group away from its Michigan roots and drained it of cash. When the US economy went into recession at the start of the 1990s, GM accumulated three years of losses before Mr Robert Stempel, Roger Smith's successor as chairman, was ousted in a boardroom coup.

Jack Smith was brought in as chief executive shortly after. In recognition of his achievements in grappling with the group's ungainly structure, he was rewarded on January 1 with the additional job of chairman, restoring a company tradition of combining both positions in one person.

"Picking up the chairman's title didn't change much compared with before," he says. "My job hasn't altered significantly."

As a finance man by background – he spent most of his career in GM's financial hierarchy – Mr Smith says he will consider any spin-off or flotation that could enhance shareholder value. While he has no more surprises up his sleeve, he admits there may be value to unlock in other parts of GM's non-automotive empire.

"These things are possible," he says. "It's awfully hard to know where the technology is headed; awfully hard to estimate the value of these technologies."

An indication of the potential that may still be lurking in the group was given by the sale in January of a 2.5 per cent stake in DirecTV, the satellite broadcasting subsidiary of Hughes Electronics, to AT&T, the biggest US long-distance telephone company, for $138m (£90m). DirecTV has yet to make a profit, but the deal put an estimated value of $5.5bn on the nascent satellite TV operation.

Despite the distractions of diversification in the 1980s, GM remains a behemoth in the automotive industry that dwarfs its rivals. Last year, it delivered 8.3m vehicles – almost one in five of the cars and trucks sold in the world. Its 1995 turnover of almost $170bn exceeded the gross national product of Indonesia.

Apart from its seven US car brands, GM owns or manages Vauxhall in the UK, Opel in Germany, Saab in Sweden and Holden in Australia. It is the biggest car and truckmaker in South America and owns almost 38 per cent of Isuzu, the Japanese vehicle-maker. It also has a growing presence in south-east Asia, including a $1bn joint venture in China. Delphi, its components subsidiary, is the biggest car parts group in the world.

Managing such a giant in a highly competitive business is the subject of intense debate among management theorists. Last year, Ford, the second-largest US carmaker, decided to tear up its organisation chart and move away from management by region or subsidiary. Its Ford 2000 plan involves a corporate structure based on five operational centres, which will take responsibility for different types of vehicle that can be sold almost anywhere with relatively inexpensive local variations.

Mr Smith admits that GM has some duplication of effort globally. In the small-to-medium-sized car sector, development teams in Europe and the US have been working on competing models – the Astra in Europe, for example, and the Geo in the US. But he believes the group can compete without the sort of upheaval seen at Ford which is too risky at a time when GM is still streamlining parts of its structure. "We think we can get to the same place [as Ford]," he says. "We can take as much effort out.

"We have really restructured our north American operations," he adds. "One thing we don't want to do is to take our eyes off the ball in getting that operation fixed."

Almost two years ago Mr Smith created a global strategy board, bringing together the heads of GM's north American and international operations and components division. It meets quarterly to allocate responsibilities for future projects on a global basis.

Mr Smith admits GM's more modest approach compared with Ford makes it more difficult to gain the full benefits of "globalising" the company. "We want to do it within our existing structure," he says. "Will we always be that way? I can't tell you we will, but we are for the moment."

In the US market, Mr Smith has set up a new North American Operations subsidiary to co-ordinate GM's car brands. One object will be a long-overdue differentiation of the group's four main brands to prevent senseless duplication of models and rivalries between brands.

The impetus to improve sales and marketing follows a drive to cut production costs. All the US Big Three carmakers are belatedly trying to break away from the profligate practices of the past. It was normal, for example, for a carmaker to build an entirely new wing on a factory to accommodate a model change, rather than retool an existing product line.

Mr Smith recognises some old habits in the car industry die hard. He describes as "a mind-set" the tendency to maximise production and then use costly incentives to shift cars if inventories get too high. Moving to practices more common in Europe and Japan, where cars are made in response to demand rather than simply to raise output, "would take a tremendous amount of inventory out of the system". But he concedes this will take time: "We're at the very beginning of it," he says.

Although Chrysler, the smallest of the Big Three, is widely acknowledged to be ahead in cost reduction, Mr Smith says GM has the lead in sales and marketing. Much of the expertise has come from GM's Saturn car division, built under Roger Smith at a greenfield site in Tennessee (and called "Roger's folly" by its detractors). This has revolutionised US car retailing by requiring dealers to build new premises to standard designs and sell cars at fixed prices rather than do deals on every sale.

But Saturn has also pioneered new management practices, sweeping away the confrontational management structure of the traditional Detroit car plant and introducing the Japanese-style approach of consultation and co-operative working. The experience is being transferred to other divisions, starting with Oldsmobile – a process dubbed "Saturnisation".

Mr Smith says GM is becoming more flexible in response to changing consumer tastes, making more of the alternatives to traditional saloon cars that account for about 43 per cent of the US car market. This year, it is converting three former car factories to build minivans (called multi-purpose vehicles outside the US) or sports utility vehicles. "We survey this pretty closely and our judgment is that the long-run trend is still rising," he says. "Directionally, we don't feel there is a lot of risk in moving towards more such vehicles."

Converting old factories to build higher margin products such as minivans should help GM to improve its margins this year. But much will depend on the market. Mr Smith is confident demand will reach about 15.3m units – slightly ahead of 1995.

He will not predict whether 1996 will see a further rise in the group's fortunes. "It's too soon to zero in on it," he says. "There's so much uncertainty."

Much will depend on the success of GM's eight main US product changes this year. Launches can seriously disrupt production, are invariably expensive, and carry the additional risk of costly discounts to shift old stock.

But analysts are cautiously optimistic, partly because of the windfalls arriving on the non-car side. "Roger's follies may be turning into Jack's good fortune," says one.

· OBSERVER ·

Noughts and crosses

■ John Major's diplomatic mission in Hong Kong did, after all, reap financial dividends for the British government. Not much, it must be said – but then every little helps.

Martin Lee, leader of the main pro-reform party in the territory, recently bet Malcolm Rifkind, the UK's foreign secretary, that the British prime minister would not allow Hong Kong residents without British passports the right of visa-free entry into the UK.

According to Chris Patten, the colony's governor, Rifkind took up Lee's wager. Indeed, so confident was Rifkind of winning that he offered Lee odds of 10-1. Now that Major has yielded ground on the visa question, Patten confidently predicts that Lee will pay up the £50 he owes. Ministers are *not* taking bets on how long the Chinese will allow Lee and the other non-conformists in the Hong Kong legislature to hang around, once the colony returns to them in July 1997.

Major might have gone up in the estimation of Hong Kong's pro-democracy activists but not much. Before his meeting with the local legislature, one such activist, Emily Lau, said gave him zero out of 100 for his services for Hong Kong. After hearing him, she increased that to 10. "Don't be so grudging, Emily," Major chided her. "All right," said Lau, "I'll give you 11."

Low-calibre stuff

■ President Kiro Gligorov of Macedonia is back on the job, apparently fully recovered from injuries received last October, when a car bomb exploded in the centre of Skopje as he was driving to his office.

Gligorov, 79, lost the sight of one eye as a result. Despite that, he has attended the Foreign Ministry's annual boar-hunt on Mount Vodno, in which members of Macedonia's fast-growing diplomatic community also participated.

Back in the dark old days of communism, boar-hunting was a favourite pastime of Balkan leaders, who laid on lavish shooting parties for foreign diplomats. They're clearly out of practice. To the chagrin of a clutch of EU ambassadors, top marksman in the Macedonian shoot was a local, Ambassador Lubo Arsovski. Taking a weekend off from setting up Macedonia's diplomatic office in Athens, he bagged a total of six boars. That's b-o-a-r, not b-o-r-e.

Spineless

■ Lucky old Egyptians! They're being made an offer they might find difficult to refuse. Muammar Gaddafi, the charismatic Libyan leader, is asking them not $10, not $5, not even $1, but the equivalent of just $0.30 for a complete package of his literary works, together with a full-colour, autographed poster of the author.

At such knock-down prices it's perhaps not astonishing that copies of his collection of short stories, *The Village, the Village, the Earth, the Earth and the Suicide of the Astronaut*, and the Green Book, (his own political and religious manifesto), have been leaving the International Cairo Book Fair faster than a Cruise missile; Libyan officials say that 100,000 copies of the books have been snapped up.

Tobacco road

■ Peter Wilmott, 49, who lost his job as the European Commission's director-general in charge of customs and taxation, has not taken long to resurface. He has been taken on as a consultant by BAT Industries. Taxation is a big issue for tobacco companies and governments do not always tax the weed in the most sensible way. Wilmott should be a good sounding-board for BAT in its relations with tax authorities around the world. That said, one of the reasons that companies hire ex-bureaucrats like Wilmott is to get access to the corridors of power. Given that Wilmott quit after making it clear he could no longer work with his boss, Italian commissioner Mario Monti, he may be less welcome in Brussels than some of his former colleagues.

On a roller

■ Vietnam may still be a developing country, but nine years of economic reform is pushing it up the Rolls-Royce index.

The free-wheeling Ho Chi Minh City is reckoned to boast 200 or so millionaires who have thrived under the communist country's perestroika; now some of them are beginning to flash their money around. Rolls-Royce has recently achieved its first sales, to two local Vietnamese businessmen who have joint ventures with foreign investors.

One snapped up a "touring limousine," a 20-foot "stretched" model complete with television set and walnut-fronted cocktail cabinet. Price? To you, about $400,000. The other bought a Silver Spur, a snip at $210,000. A tidy sum, given local average monthly per capita income of $810.

It's suitcase time

■ Banco Nacional de Angola (Angola's central bank) devalued the official rate of the readjusted kwanza to 31,784 per single US dollar, from 6,024. Bad enough, you might think. Think again. The street price is about 50,000 per dollar. Round numbers are so much easier.

The Financial Times

100 years ago

The US and Spain
Washington: The Senate Committee on Foreign Relations at its meeting today had under discussion the resolution passed to it by the House of Representatives in reference to Cuba, and found itself unable to agree upon it. The committee was divided in sentiment, the majority of the members holding that the House resolution was not so strong as that of the Senate, and also that its language was ambiguous. The second clause of the resolution says: "The only permanent solution of the contest equally in the interests of Spain and the people of Cuba, would be to establish a Government by the choice of the people of Cuba."

50 years ago

Anglo-French talks go well
The discussions between London and Paris for the conclusion of a new financial and trade pact in the place of the one that expired on 28th February are understood to be making good progress. Agreement may be expected in a few days. The ill-feeling created by the failure to come to an understanding before the old agreement expired appears to have been somewhat exaggerated by press comments on both sides of the Channel

FINANCIAL TIMES
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Demand from post office triggers appeal to EU

Citibank fights German action on mail charges

By Peter Norman in Bonn and Neil Buckley in Brussels

Citibank yesterday said it had appealed to the European Commission in Brussels to prevent Deutsche Post, the German post office, from imposing an extra charge for mail sent from the Netherlands to the US bank's credit card customers in Germany.

The appeal, which could determine whether companies can take advantage of low-cost postal systems in the European single market, follows the start of action in a Frankfurt court last December by Deutsche Post.

The post office wants to force Citibank's German credit card company, Citicorp Kartenservice (CKS), to pay the German domestic postal rate of DM1 per letter on mail sent from the group's Dutch distribution centre in Arnhem to nearly 400,000 customers in Germany. Citibank's mail from Arnhem is about 40 per cent cheaper than the equivalent German post. Deutsche Post will tomorrow begin court proceedings in Frankfurt in a similar case against another credit card company, GZS Gesellschaft für Zahlungssysteme, accusing it of illegal "remailing" by routing letters to 300,000 business partners in Germany through Denmark.

Deutsche Post has brought remailing cases in the past against small companies and has won them. The Citibank and GZS cases break new ground in that the post has been created outside Germany from data transmitted electronically.

The cases involve considerable sums of money, an apparent conflict between the EU's single market rules and the world postal agreement. They also highlight legal uncertainty over the interaction of on-line telecommunications and traditional mailing methods as companies strive to hold costs to a minimum.

GZS, which serves Eurocard customers in Germany, yesterday declined to comment on its dispute with Deutsche Post because of the imminent court hearing. Citibank, however, accused Deutsche Post of infringing article 86 of the European Union treaty by abusing its monopoly position to demand postage fees on mail posted in the Netherlands.

In Bonn, Deutsche Post said Citibank's action contravened the world post agreement against remailing.

But Citibank said the post sent to its clients in Germany was not remailing but part of a European-wide credit card business that it had built up after creation of the European single market.

The legal status of such post is unclear. Mr Wolfgang Bötsch, German post minister, sought commission clarification twice last year. Mr Karel van Miert, the EU competition commissioner, twice advised him that interception of non-physical remailing by Deutsche Post was not acceptable and would infringe single-market rules.

Reductions by Hewlett intensify price war on PCs

By Louise Kehoe in San Francisco

Hewlett-Packard cut prices of its high performance personal computer servers by up to 21 per cent in all markets yesterday, signalling a deepening price war in the market for PCs designed for business users.

Hewlett-Packard's move follows Compaq Computer's announcement last week that it would cut prices of commercial desktop PCs and PC servers in an effort to boost sales and increase market share.

Yesterday, Compaq launched 35 new desktop PC products aimed at business users and cut prices on existing models by up to 20 per cent. Compaq's new prices match and in some cases undercut those of its rivals. Industry analysts said Compaq's new desktop PC prices were aimed at countering intense competition from Hewlett-Packard and IBM.

IBM, which announced price reductions in the US two weeks ago, took additional pricing action in Europe on Friday and is expected to follow up with more cuts in the US this week. "When a competitor moves in response to our actions, we have to act fast to rebalance the scale in our favour," said Mr Robert Stephenson, IBM senior vice president in charge of the group's PC arm.

Mr Louis Gerstner, IBM's chairman and chief executive, said a shift towards network computing meant the group expected to see increased demand for its server products, which includes computers ranging from room-size mainframes to desktop PCs.

Price competition is already intense in the retail sector of the PC market, but the price war is now spreading to the corporate sector which until now has carried higher profit margins, industry analysts said. Compaq is also expected to cut prices on its PC server products by about 20 per cent later this week, but Hewlett-Packard's action yesterday may force Compaq to make even deeper price reductions.

Dell Computer, which sells PCs directly to corporate customers through telephone and mail order, is also making price cuts. Last week the company announced reductions of up to 29 per cent on its line of PowerEdge PC servers.

PC servers are very high performance computers which are typically linked to corporate computer networks. Demand for PC servers is strong, according to analysts, and is driven by rapid growth of the use of internal corporate "intranets" – networks that use the same software and standards as the Internet but are designed for internal use.

Compaq leads the PC server market with an estimated 36 per cent market share.

IBM swoops, Page 22

Beijing considers further measures to fight inflation

By Tony Walker in Beijing

Further measures to check the overheating of China's economy, bringing inflation below 10 per cent and maintaining annual growth at about 8-9 per cent, will be raised at the country's annual parliamentary session starting in Beijing today.

The session will also debate government proposals for cautious reform of lossmaking state enterprises whose accumulated debts are proving a huge burden on the banks. Reform of overstaffed state enterprises is the most sensitive political issue facing China.

Mr Deng Xiaoping, the ailing patriarchal leader, who was elected to a ceremonial position on the praesidium of the parliament, is not expected to appear, although his bold reformist legacy will colour the deliberations.

The nearly 3,000 deputies, who will convene in Beijing's Great Hall, will endorse the ninth five-year plan (1996-2000), and also a blueprint for economic reform to 2010.

The plan and blueprint were approved by Communist party leaders last October at the fifth plenary session of the party's central committee. These documents will form the basis of Premier Li Peng's "work report", or state of the nation address, to be delivered today.

An economist with the State Commission for Restructuring the Economy said Mr Li would emphasise themes of consolidation and stability following the rapid changes of the early to mid-1990s.

He was unlikely to foreshadow an adventurous approach to state enterprise reform such as accelerated moves towards privatisation. Instead, he will urge greater efforts to modernise selected large-scale enterprises.

China has said it will single out 1,000 larger enterprises for special assistance, while allowing smaller state-owned companies to be either merged, acquired by larger enterprises, privatised or made bankrupt. Key enterprises would be given access to credit to assist in their technical transformation.

Other issues likely to be dealt with by Mr Li in his report include the need to close the development gap between the wealthier coastal regions and a deprived hinterland. In this, he will be anticipating criticism from delegates from poorer interior provinces.

The five-year plan sets as one of its chief aims increased investment in infrastructure such as communications, transport and energy as part of efforts to deal with regional disparities.

Mr Li, in his call for a continued reduction in retail price inflation to less than 10 per cent from 14.5 per cent last year, says: "We must continue to make control over inflation our top priority."

Despite implied criticism of explosive economic growth inspired by Mr Deng in the early 1990s, Mr Li will praise his achievements.

Mr Li will also emphasise the need to boost agriculture, regarded as the economy's weak link, pursue the anti-corruption drive, and redouble efforts to fight crime, which is spreading in Chinese cities.

Japan opposition blocks $6bn bailout

Continued from Page 1

the door to the Lower House budget committee room in parliament, preventing the panel from starting proceedings needed for a vote on the budget for the fiscal year beginning in April. A succession of cabinet members, including Mr Ryutaro Hashimoto, prime minister, were turned away from the committee room as they tried to remonstrate with members.

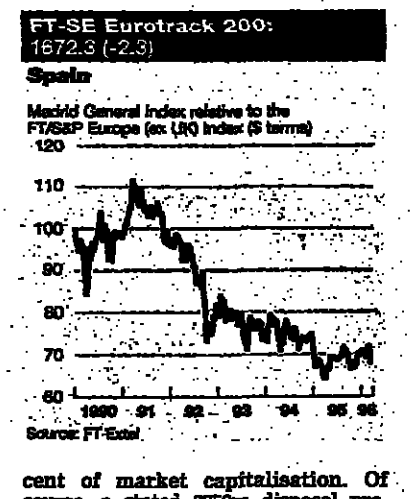
To shouts of "Go home, Hashimoto," the prime minister was bundled out of the corridor leading to the committee room. Opposition members were encouraged by Mr Ichiro Ozawa, the NFP leader, who said: "If you get tired, I can find plenty of people to take over from you."

Outside the building, residents of the city of Kobe staged their own protest. They urged the government to spend the tax money on helping to rebuild their city, which was hit by a huge earthquake in January 1995.

THE LEX COLUMN

Investor siesta

The 5 per cent drop in Spain's stock market yesterday looks like a sanguine response to the election results. The right-wing Partido Popular's victory is about as hollow as they get. And it opens the door to Italian-style politics by consensus, since the PP will need the support of at least two other political parties to form a government. This is not the perfect platform for launching party chief Mr José María Aznar's hoped-for programme of labour reforms and budget cuts.



The best-case scenario is that the PP can put together a strong coalition with the Catalan nationalist party and smaller regional parties. But the Catalans will want to extract several pounds of flesh in return for their support. Following its defeat in the 1993 elections, the PP softened reform proposals, but even these now look optimistic. The Catalans will insist on more generous transfers from the central budget to Catalonia, which bodes ill for proposed budget cuts. Meanwhile, with one of the highest rates of unemployment in Europe, Mr Aznar will struggle to win support for reform of the labour market, as well as pension and health systems. This can only hamper Spain's plans to join European Monetary Union.

Even if Mr Aznar can draw together a credible coalition, his disappointing election performance must postpone expectations of an interest rate cut, while offering weeks of uncertainty. This will not favour the equity and bond markets.

Kvaerner

Kvaerner's offer to Trafalgar House's war-weary investors should be accepted with gratitude. Despite years of extensive surgery by its largest shareholder, Hongkong Land, Trafalgar was still three years away from reporting a respectable level of profitability. By then, it would have owed £85m ($131m) in dividends to preference shareholders, so ordinary shareholders would get little reward for their patience. On any valuation basis other than revenues, Kvaerner has offered a full price. And if this embarrassing episode spurs Hongkong Land to invest its time and money closer to home, its shareholders should not rue the £100m loss it will report on its three-year investment.

Perhaps the biggest surprise yesterday was that Kvaerner's shares rose. Its shareholders do not even get to vote on a transaction which will increase net debt to around 150 per cent of market capitalisation. Of course, a stated £750m disposal programme should halve debt. But while listed investment sales can be relied on, Trafalgar's Cunard cruise line could prove more unwieldy; and Cunard requires substantial investment if Kvaerner cannot sell it.

The upside for Kvaerner is Trafalgar's £3.7bn of annual turnover. Kvaerner thinks it can get a 3 per cent profit margin from Trafalgar's engineering and construction businesses, but its own record in these businesses is far from stellar. Promises that the deal will enhance 1997 earnings look optimistic. This is a challenge best watched from the sidelines.

Container shipping

The immodestly-named "Grand Alliance" between P&O and three of its container shipping rivals is the latest attempt to bring order to a market in which nobody is making much money. P&O and Hapag-Lloyd of Germany have warned about their 1995 profits, while the Dutch line Nedlloyd is probably making losses.

Container shipping should be a thriving business. World trade is growing at 8 per cent a year and containers are stealing market share from old bulk carriers. But overcapacity and fierce competition mean freight rates have fallen faster than volumes have risen. Attempts to fix rates through cartel-like "conferences" of shipping groups have largely failed. Either competition authorities have blocked them or those outside the agreements have undercut the rates.

The new consortium is focusing more on costs. Pooling ships on designated routes will allow better utilisation and more frequent sailings. There should also be efficiencies from joint buying of port and rail services and common marketing. But the Grand Alliance and two similar ones now being formed will have only half the market. The danger is that, as in the past, hard-won savings get passed through to customers.

Pooling assets, therefore, should be only the first step. The next move would be to form a proper joint venture which could buy ships. A joint shareholding structure would also leave less committed members, like P&O, with the option of selling out.

Intranets

Fresh from grappling with the financial implications of the Internet, investors are having to come to terms with another phenomenon: "intranets". As the name implies, these are close relatives of the Internet. Indeed, they use the same technology and infrastructure. The difference is that, while companies setting up shop on the Internet are displaying their wares to outsiders, enterprises use intranets for internal communication. Inter[illegible] [illegible]lished [illegible] valuation. In the end, [illegible] manufacturers' [illegible] ise to the crisis was [illegible] fashioned by Nafta, [illegible] has redrawn tariffs on [illegible] d to wake up to intranets [illegible] illustrated by AT&T's decision last week to terminate its collaboration with International Business Machines' Lotus Notes, knocking the computer giant's share price by 4 per cent. Notes performs many of the same functions as intranets. The snag is that, while intranets use open technology, Notes is a proprietary product. This gives intranets multiple advantages: not only are enterprises less afraid about being trapped with a single supplier but, because intranets piggy-back on the Internet, they are also cheaper to set up, use and support.

Indeed, intranets may soon overtake the Internet in financial significance. Their explosive growth makes IBM's $3.5bn acquisition of Lotus last year look a waste of money. The flip side is that traditional Internet suppliers like Sun Microsystems and Netscape and newcomers like AT&T and Microsoft have another fast-growing market to tap.

Additional Lex comment on Body Shop, Page 22

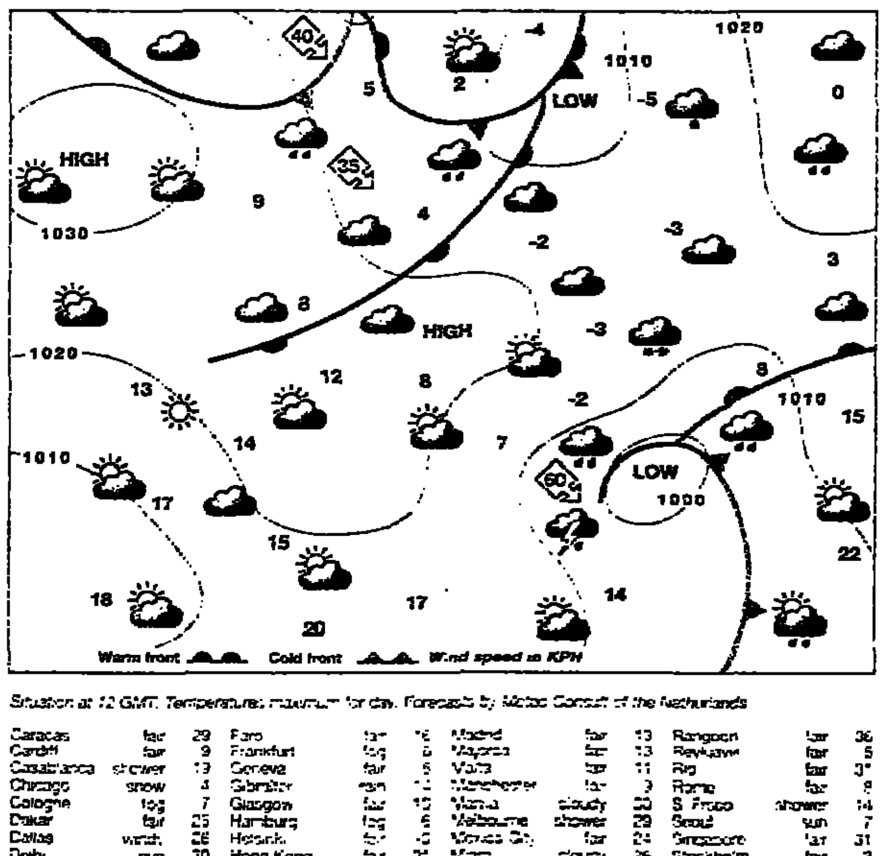
FT WEATHER GUIDE

Europe today

Strong, high pressure to the north-west of Ireland will result in settled conditions from the low countries to France. Spain will be sunny, although later in the day the south will have rain. Northern Italy will be sunny but rain is expected in the south. Southern Greece and western Turkey will have persistent rain as an active low pressure area moves from the Mediterranean Sea into south-west Turkey. Germany, Poland and the Balkan states will be cloudy with some light snow. Sweden and eastern parts of Norway will be sunny, but the west will be overcast with snow showers.

Five-day forecast

During the week, a new high pressure area will build over Scandinavia. As a result, cold easterlies will blow from the continent into the low countries. The Mediterranean will become unsettled with rain in Spain and Italy. Finland and Sweden will be sunny and cold. The Alps will have a few scattered light showers with rain or snow, but should stay mainly dry throughout the week.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	sun	34
Accra	fair	32
Algiers	fair	16
Amsterdam	cloudy	6
Athens	rain	9
Atlanta	sun	17
B. Aires	shower	27
B.ham	fair	9
Bangkok	fair	34
Barcelona	fair	11
Beijing	sun	17
Belfast	fair	9
Belgrade	fair	0
Berlin	cloudy	3
Bermuda	shower	20
Bogota	cloudy	20
Bombay	sun	34
Brussels	rain	6
Budapest	fair	1
C.hagen	cloudy	4
Cairo	fair	25
Cape Town	sun	27
Caracas	fair	29
Cardiff	fair	9
Casablanca	shower	13
Chicago	snow	4
Cologne	fog	7
Dakar	fair	25
Dallas	windy	26
Delhi	sun	30
Dubai	sun	34
Dublin	fair	9
Dubrovnik	fair	5
Edinburgh	fair	9
Faro	fair	16
Frankfurt	fog	6
Geneva	fair	5
Gibraltar	rain	[illegible]
Glasgow	fair	[illegible]
Hamburg	fog	6
Helsinki	fair	-5
Hong Kong	fair	21
Honolulu	cloudy	26
Istanbul	rain	4
Jakarta	shower	30
Jersey	cloudy	7
Karachi	sun	31
Kuwait	sun	24
L. Angeles	cloudy	16
Las Palmas	shower	22
Lima	cloudy	29
Lisbon	fair	16
London	fair	3
Lux.bourg	fog	6
Lyon	fair	2
Madeira	shower	12
Madrid	fair	13
Majorca	fair	13
Malta	fair	11
Manchester	fair	3
Manila	cloudy	30
Melbourne	shower	29
Mexico City	fair	24
Miami	cloudy	25
Milan	fair	9
Montreal	snow	-5
Moscow	fair	-2
Munich	cloudy	3
Nairobi	fair	25
Naples	cloudy	7
Nassau	thund	26
New York	sleet	7
Nice	fair	11
Nicosia	fair	14
Oslo	fair	3
Paris	cloudy	7
Perth	fair	35
Prague	snow	0
Rangoon	fair	36
Reykjavik	fair	5
Rio	fair	3
Rome	fair	9
S. Frsco	shower	14
Seoul	sun	7
Singapore	fair	31
Stockholm	fair	2
Strasbourg	cloudy	6
Sydney	fair	24
Tangier	fair	17
Tel Aviv	fair	23
Tokyo	fair	8
Toronto	cloudy	4
Vancouver	fair	7
Venice	fair	7
Vienna	fair	0
Warsaw	snow	-2
Washington	cloudy	16
Wellington	fair	17
Winnipeg	fair	-13
Zurich	cloudy	5

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